



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Rural Development's Financial Statements for Fiscal Years 2005 and 2004

Report No. 85401-12-FM
November 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



November 10, 2005

REPLY TO

ATTN OF: 85401-12-FM

TO: Thomas C. Dorr
Under Secretary
for Rural Development

ATTN: John M. Purcell
Director
Financial Management Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2005 and 2004

This report presents the results of our audit of Rural Development's financial statements for the fiscal years ending September 30, 2005 and 2004. The report contains an unqualified opinion and the results of our assessment of Rural Development's internal control structure and compliance with laws and regulations.

Based on the information provided during the audit, we have reached management decision for Recommendations 1, 2, and 3 in the report. Please follow your internal procedures in forwarding documentation of final action to the Office of the Chief Financial Officer. For Recommendation 4, additional actions are needed to reach management decision. Please refer to the OIG Position sections of the report for specific details.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes for implementation on the remaining recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

Executive Summary

Rural Development's Financial Statements for Fiscal Years 2005 and 2004 (Audit Report No. 85401-12-FM)

Purpose

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position, net costs, changes in net position, budgetary resources; and reconciliation of net costs to budgetary obligations; (2) the internal control objectives over financial reporting were met; and (3) Rural Development complied with laws and regulations for those transactions and events that could have a material effect on the financial statements.

We conducted our audit at the Rural Development Finance Office and Centralized Servicing Center in St. Louis, Missouri, and the Rural Development national office in Washington, D.C. We also performed site visits to selected Rural Development field offices.

Results in Brief

In our opinion, the Rural Development consolidated financial statements for fiscal years 2005 and 2004, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of Rural Development, as of September 30, 2005 and 2004; and its net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our report on the Internal Control Structure Over Financial Reporting, we report that improvements are needed in Rural Development's controls over information technology (IT) and unliquidated obligations (ULO). We found that Rural Development's certification and accreditation process had not produced complete and reliable documentation, and that the Office of the Chief Information Officer's – Information Technology Services division general control environment had weaknesses that affected the reliability of Rural Development's data. We also identified ULOs for the Rural Electric and Telecommunications Program that Rural Development had improperly included in its certification report, incorrectly certified, or were not adequately supported. Finally, we found that Rural Development did not ensure that its Dedicated Loan Origination and Servicing (DLOS) system had adequate separation of duties controls between loan approval officials and loan originators.

In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary relating to improving financial management systems. We also disclosed that Rural Development reported an Anti-Deficiency Act violation of \$1 billion.

Key Recommendations	We did not make additional recommendations related to the information technology weaknesses since those deficiencies and recommendations were documented in other departmental reports. Rural Development should ensure all improper ULO records are eliminated from the certification reports and implement additional procedures over the ULO certification process including procedures for identifying and deobligating funds not needed. We also recommended that Rural Development verify access for all field personnel to ensure compliance with segregation of duties principles.
Agency Position	Rural Development officials generally agreed with the findings and recommendations in this report.
OIG Position	We concur with management decisions for Recommendations 1, 2, and 3. Additional information is needed for Recommendation 4 as disclosed in the body of this report.

Abbreviations Used in This Report

C&A	Certification and Accreditation
DLOS	Dedicated Loan Origination and Servicing
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FSA	Farm Service Agency
IT	Information Technology
ITS	Information Technology Services
NRCS	Natural Resources Conservation Services
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
RUS	Rural Utilities Service
SCA	Service Center Agencies
ST&E	Security Testing and Evaluation
USDA	U.S. Department of Agriculture
ULO	Unliquidated Obligations

Table of Contents

Executive Summary	i
Abbreviations Used in This Report	iii
Report of the Office of Inspector General	1
Report of the Office of Inspector General on Internal Control Structure Over Financial Reporting	3
Report of the Office of Inspector General on Compliance with Laws and Regulations	5
Findings and Recommendations.....	7
Section 1. Material Internal Control Structure Weakness Over Financial Reporting.....	7
Finding 1 Information Technology (IT) Control Weaknesses Impact the Reliability of Financial Data	7
Section 2. Reportable Internal Control Structure Weaknesses Over Financial Reporting...	10
Finding 2 Improvements Needed Over the Rural Electric and Telephone Unliquidated Obligations Process	10
Recommendation No. 1.....	11
Recommendation No. 2.....	12
Recommendation No. 3.....	12
Finding 3 Inadequate Segregation of Duties within Dedicated Loan Origination and Servicing (DLOS)	13
Recommendation No. 4.....	14
Section 3. Compliance With Laws and Regulations	16
Finding 4 Noncompliance with FFMIA Requirements	16
Finding 5 Anti-Deficiency Act Violation	17
Exhibit A – Consolidated Financial Statements.....	18



Report of the Office of Inspector General

TO: Thomas C. Dorr
Under Secretary
for Rural Development

We have audited the accompanying consolidated balance sheets of Rural Development as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and the combined statements of budgetary resources (hereinafter referred to as the “consolidated financial statements,”) for the fiscal years then ended. The consolidated financial statements are the responsibility of Rural Development’s management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Rural Development as of September 30, 2005 and 2004; and its net costs, changes in net position, reconciliation of net costs to budgetary obligations, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in Management’s Discussion and Analysis is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America or OMB Circular No. A-136, “Financial Reporting Requirements.” We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

We have also issued a report on Rural Development's internal controls and a report on the mission area's compliance with certain provisions of 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.

This report is intended solely for the information of the management of Rural Development, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

November 7, 2005



Report of the Office of Inspector General on Internal Control Structure Over Financial Reporting

TO: Thomas C. Dorr
Under Secretary
for Rural Development

We have audited the accompanying consolidated balance sheets of Rural Development as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and the combined statements of budgetary resources (hereinafter referred to as the “consolidated financial statements,”) and have issued our report thereon dated November 7, 2005. 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 Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

In planning and performing our audit, we considered Rural Development’s internal control over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of control in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on Rural Development’s internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

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 that, in our judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated 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 any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters described in the Findings and Recommendations, Sections 1 and 2, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable condition in Section 1 is a material weakness.

Additional Other Procedures

As required by OMB Bulletin No. 01-02, we considered Rural Development's internal control over required supplemental information by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such required supplemental information; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of Rural Development, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

November 7, 2005



Report of the Office of Inspector General on Compliance with Laws and Regulations

TO: Thomas C. Dorr
Under Secretary
for Rural Development

We have audited the consolidated balance sheets of Rural Development as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and the combined statement of budgetary resources (hereinafter referred to as the “consolidated financial statements,”) and have issued our report thereon dated November 7, 2005. 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 Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

The management of Rural Development is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of Rural Development’s compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provision of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996. We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to Rural Development. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and information brought to our attention during our audit disclosed instances of noncompliance with the Federal Financial Management Improvement Act of 1996 and an Anti-Deficiency Act violation. (See Findings and Recommendations, Section 3.)

This report is intended solely for the information and use of the management of Rural Development, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

November 7, 2005

Findings and Recommendations

Section 1. Material Internal Control Structure Weakness Over Financial Reporting

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated 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 any internal control, misstatements due to error or fraud may occur and not be detected. We believe that Finding No. 1 is a material weakness.

Finding 1

Information Technology (IT) Control Weaknesses Impact the Reliability of Financial Data

IT control weaknesses, which include an unreliable certification and accreditation (C&A) process, and ineffective controls in the Office of the Chief Information Officer-information technology (IT) general control environment have had a material effect on the integrity, confidentiality, and availability of Rural Development's systems and data. These weaknesses need to be addressed at the Department's Office of the Chief Information Officer (OCIO) level to ensure that effective controls are established; however, the weaknesses are significant enough to affect the reliability of Rural Development's systems and data. As a result, Rural Development's critical loan portfolio data and information residing on the systems are at risk of compromise impacting the reliability of the financial data.

The Office of Inspector General (OIG) recognizes the significant commitment and progress accomplished by Rural Development, both independently and through the efforts of the President's Management Agenda, during the fiscal year to implement corrective actions on our prior audit recommendations, and meet the Department's timeframes for completing system C&As. Rural Development has worked closely with OIG to ensure that proposed corrective actions will address the systemic causes of the issues we have previously identified. The following paragraphs highlight the control weaknesses we identified.

C&A

Required by Office of Management and Budget (OMB) Circular No. A-130, Appendix III, "Security of Federal Automated Information Resources,"

dated November 30, 2000, security accreditation provides a form of quality control and challenges managers and technical staffs at all levels to implement the most effective security controls possible in an information system, given mission requirements, technical constraints, operational constraints, and cost/schedule constraints. By accrediting an information system, an agency official accepts responsibility for the security of the system and is fully accountable for any adverse impacts to the agency if a breach of security occurs. Thus, responsibility and accountability are core principles that characterize security accreditation.

Rural Development had aggressively pursued accreditation of its major applications as required by OMB Circular No. A-130. However, our review of the C&A documentation supporting four applications disclosed that the documentation did not meet basic accreditation requirements, the security testing and evaluation (ST&E) was inadequate, and/or the systems were fully accredited without restrictions or limitation before all components were fully operational. While Rural Development closely followed the Department's guidance in completing its C&A efforts, the process did not result in complete and reliable documentation, or ensure that adequate testing was performed during the independent ST&E process. As a result, these deficiencies render the accreditation ineffective in meeting the intent of OMB Circular No. A-130. OIG recognizes the Department's responsibility to implement effective guidance and controls over the C&A process and has made recommendations to the Department under OIG Audit Report No. 50501-4-FM, "Review of the U.S. Department of Agriculture's Certification and Accreditation Efforts," dated October 21, 2005. As such, OIG makes no further recommendations for Rural Development to address.

Common Computing Environment (CCE)

In recent years, the Department co-located field offices of the Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), and Rural Development into one-stop U.S. Department of Agriculture (USDA) service centers to provide seamless, quality customer service to farmers and rural residents. A key element for the success of this Service Center Modernization Initiative is the replacement of aging business and technology systems. IT convergence allows FSA, NRCS, and Rural Development, collectively referred to as the Service Center Agencies (SCA), to share data among themselves and their customers, and to streamline business processes. Additionally, IT convergence provides the infrastructure needed to ensure that customers can conduct business electronically with the SCAs.

The convergence process shifted the management and security responsibilities of the network operating environment from those individual SCAs to the Department's OCIO, Information Technology Services (ITS).

Overall, we found that ITS had begun to implement controls over the weaknesses we identified. However, our review identified the same types of weaknesses that prior audits identified in the SCA's individually, including inadequate (1) controls over physical and logical access, (2) inventory of systems and network equipment, (3) policies and procedures, and (4) vulnerability scanning and mitigation. Until ITS establishes effective controls over the issues identified, the CCE network and systems may be exploitable, jeopardizing the integrity of the SCAs' data and ITS' system resources. The inadequate controls in the general control environment materially affects the integrity, confidentiality, and availability of Rural Development's systems and data.

Additional details and recommendations can be found under separate cover, OIG Audit Report No. 50501-3-FM, "Office of the Chief Information Officer – Management and Security Over Information Technology Convergence – Common Computing Environment," dated October 24, 2005. Since these recommendations are directed at the Department's OCIO, we make no recommendations for Rural Development to address.

Section 2. Reportable Internal Control Structure Weaknesses Over Financial Reporting

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Finding 2 Improvements Needed Over the Rural Electric and Telephone Unliquidated Obligations Process

Although Rural Development has made improvements in its certification process of Rural Electric and Telecommunications Program unliquidated obligations (ULO), additional improvements are still necessary.¹ Our review of a sample of 72 Rural Electric and Telecommunications Program ULOs in the amount of \$3.2 billion, identified that 25 (35 percent) of the records with ULO balances of \$1 billion were either: (1) improperly included in the certification report, (2) not properly certified, or (3) not adequately supported. This occurred because the certification reports contained erroneous records and were not properly certified and reviewed. Additionally, Telecommunications ULOs were not adequately supported. As a result, \$789 million ULOs were improperly included in the certification reports, \$104 million ULOs were not properly certified, and \$119 million ULOs were not adequately supported.

Our review disclosed the following:

- Sixteen ULO records were improperly included in the certification reports. This included six ULOs that were attributed to the repricing of Federal Financing Bank (FFB) year 1992 and 1993 loans that were improperly included in the certification reports, but not included in the agency program and accounting records.² Additionally, nine ULOs were improperly included in the certification reports even though there were offsetting obligations or disbursements in another borrower's account as

¹ Certification reports are periodically provided to agencies which list their current outstanding obligations. Agencies are required to review these reports to determine whether the obligation is still needed to cover expected future outlays. If so, the obligation is considered to be valid. If not, the agency should deobligate the funds. The agencies should document this review and "certify" back to the Department that this review was performed.

²Overall, Rural Development financial personnel improperly included a total of \$1.3 billion of year 1992 and 1993 FFB ULOs attributed to the repricing issue in their certification reports.

a result of mergers or consolidations. We also noted that one ULO was improperly included because of a duplicate rescission entry in the certification report.

- Two ULO records were not properly certified by Rural Electric and Telecommunications personnel. Subsequent to our review, Rural Development financial personnel provided revised certification reports in which the program personnel properly certified against the remaining ULO balances for these two records.
- Seven ULO records were not adequately supported by Telecommunications Program personnel. Telecommunications personnel did not determine if all purposes of the loans were accomplished and did not contact the borrowers to see if funds could be rescinded. This action was agreed upon in order to reach management decision in fiscal year 2004. Subsequent to our review in fiscal year 2005, Rural Development program personnel contacted the borrowers to obtain assurance that the remaining ULO balances were valid and funds were still required.

Furthermore, not all certification reports were properly completed by program personnel or adequately reviewed by financial personnel. Specifically, certification reports were not properly certified and approved. Nor did the reports contain proper certification markings and annotations to support that the reviews were effectively performed by the program personnel. Financial personnel performed limited reviews of certification reports and did not identify all records that were erroneously included in the reports or improperly certified against. Additionally, adequate followup procedures were not performed to ensure improperly completed reports were corrected and appropriate followup actions were performed. Rural Development officials stated additional work was not performed due to current work on converting files to a new system which financial personnel believed would correct the current report discrepancies.

The Department of Treasury's Fiscal Yearend 2005 Closing Procedures require agencies that have not reviewed their ULOs during the year to do so prior to yearend closing and to retain records on verifications to facilitate audits. Section 206 of the Rural Electrification Act states that insured telephone loan amounts shall not be rescinded without the consent of the borrower unless all purposes of the loan have been accomplished.

Recommendation No. 1

Rural Development financial personnel should ensure that all improper ULO records are eliminated from the certification reports.

Agency Response Rural Development agreed with the recommendation and will eliminate improper ULO records effective with the ULO reports as of March 31, 2006. These improper records include loans attributed to repricings, mergers, or consolidations.

OIG Position We concur with the management decision.

Recommendation No. 2

Rural Development financial personnel should develop and implement additional procedures over the ULO certification process. Procedures should clearly identify officials responsible for performing followup actions, the extent of review to be performed, and actions to be taken as a result of the review. Training should also be provided to agency personnel responsible for performing and reviewing these functions to ensure consistent agency wide implementation.

Agency Response Rural Development agreed to develop procedures that document the requirements for performing and certifying to ULO's. The procedures will include followup actions, the extent of review to be performed, and actions to be taken as a result of the review. Additionally, Rural Development will provide training to agency personnel responsible for performing ULO reviews. The procedures and training will be completed for the ULO reviews performed as of March 31, 2006.

OIG Position We concur with the management decision.

Recommendation No. 3

Telecommunications Program personnel should develop procedures to contact borrowers to ensure remaining ULO funds are still necessary. If all purposes of the loan have been accomplished and funds are no longer needed, telecommunications personnel should seek consent of the borrower to deobligate funds. Copies of the confirmation letters and requests for deobligation should be retained in program files for audit purposes.

Agency Response Over the last 2 years the Rural Utilities Service (RUS) Telecommunications Program has intensified its effort to reduce the amount of ULOs. Program personnel have been notifying borrowers to deobligate funds that are no longer needed. It started with Rural Telephone Bank borrowers. The next phase is sending letters to borrowers in all programs with loans that are more than 5 years old and that have unadvanced balances.³ We also plan to send letters annually to all Telecommunications Program borrowers with loans that are more than 5 years old and that have unliquidated obligations.

³ We already begun this next phase and expect to send all such letters by March 31, 2006.

The loan documents for the “Traditional” Loan Program and the Broadband Loan Program now contain requirements that, 5 years after the date of the note, any unadvanced funds will be rescinded. These documents are being used with each new loan. Because of existing legislation and current legal interpretations, RUS is required to depend on borrowers with older loans to request rescissions. The Telecommunications Program, however, strives to obtain such requests when funds are no longer necessary to accomplish the purposes of a particular loan.

RUS will continue to monitor all its borrowers that have loan funds remaining unadvanced 5 years after the date of the note evidencing those funds. Furthermore, RUS will continue to deobligate, within the limits of the law, those funds that are no longer needed by its borrowers.

OIG Position

We concur with the management decision.

Finding 3

Inadequate Segregation of Duties within Dedicated Loan Origination and Servicing (DLOS)

Rural Development had not ensured adequate segregation of duties between loan approval officials and loan originators in its servicing offices. We found loan approval officials in three of the six Rural Development Service Centers we visited also had loan originator privileges in the DLOS System. Rural Development officials informed us that Rural Development granted both loan approval and loan originator access in small servicing centers where proper segregation of duties could not be accomplished with a limited staff. Lack of adequate segregation of duties between loan approval officials and loan originators increases the risk for fraud and increases the risk that errors may go undetected or not be detected timely.

Rural Development Field Office Handbook 1-3550 states the loan originator is responsible for conducting preliminary screening and ensuring the completeness of the application, and the loan approval official is responsible for approval or rejection of the loan application. Once approved, the loan originator should obligate the funds and order the check.

Segregation of duties is a fundamental internal control mandated by the Government Accountability Office’s, “Standards for Internal Control in the Federal Government.” Segregation of duties are prescribed as key duties and responsibilities needed to divide or segregate among different people to

reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Eleven of the 15 loan approval officials in the select field offices in Idaho, Illinois, and New York had the ability to approve, obligate, and issue checks in the DLOS System. Therefore, these individuals could have performed all three critical steps autonomously on all 183 Single Family Housing Direct and Guaranteed loans originating from those offices, valued at over \$15 million.

According to Rural Development officials in the Single Family Housing program a limited number of offices have only one loan specialist with the authority to approve, obligate, and disburse loan funds. A full separation of duties is not present in these offices. However, our visits disclosed that the three field offices we visited had between 6 and 36 Rural Development employees, more than enough to allow for appropriate segregation of duties.

Recommendation No. 4

Verify access for all field personnel to ensure compliance with segregation of duties principles and either modify access or implement compensating controls, as necessary.

Agency Response

No later than September 30, 2006, Rural Development will complete the following actions:

- Issue a policy statement that requires certification by the field staff that high risk functions were performed by separate staff members. This guidance will provide a format for certification that the loan approval official is responsible for exceptions to underwriting standards and loan approval determinations. (An employee with loan and grant approval authority as outlined in Rural Development Instruction 1901-A.) Loan origination functions such as selection of applications for processing, income and credit verifications, funds obligation, and loan activation must be performed by a staff member other than the loan approval official.
- Implement monitoring of policy compliance by adding questions to the State Internal Review guide to ascertain if the certification was completed and was supported by the documentation in the file.

OIG Position

We agree with the compensating controls Rural Development has proposed to implement, however, we do not agree those controls adequately address the DLOS IT weakness. Rural Development needs to include a system

change to limit the loan originator and loan approval access or identify those individuals with both loan originator and loan approval access and include a monitoring report that is signed off by management. If Rural Development does not implement controls prior to fiscal yearend 2006 it places program funds at risk throughout the year.

Section 3. Compliance With Laws and Regulations

The management of Rural Development is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of Rural Development compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA). For fiscal year 2005, we continue to report noncompliance with FFMIA. Rural Development officials also reported and we have included in Finding No. 5 an Anti-Deficiency Act violation as disclosed herein.

Finding 4

Noncompliance with FFMIA Requirements

Rural Development reported in its initial FFMIA Remediation Plan dated September 7, 2005, for the period ending September 30, 2005, that its financial management systems were in compliance with Federal Financial Management System Requirements. Subsequent to that submission OIG issued two key reports as discussed in Finding No. 1, IT Control Weaknesses Impact the Reliability of Financial Data.⁴ While the two reports were addressed to the Department's OCIO the issues identified impacted Rural Development and as such the information residing on its systems.

OIG has been informed by Rural Development officials that they are in the process of revising its Federal Managers' Financial Integrity Act (FMFIA) report to include IT as a material weakness. Rural Development officials stated they will provide the revised FMFIA as soon as it is available. In addition, Rural Development asserted in its management representation letter that except as disclosed in this audit report, it is in compliance with FMFIA and FFMIA. We concur with the representation.

Based on the current corrective action plans, we are making no further recommendations in this report.

⁴OIG Audit Report No. 50501-4-FM, "Review of the U.S. Department of Agriculture's Certification and Accreditation Efforts," dated October 21, 2005, and OIG Audit Report No. 50501-3-FM, "Office of the Chief Information Officer – Management and Security Over Information Technology Convergence – Common Computing Environment," dated October 24, 2005.

Finding 5**Anti-Deficiency Act Violation**

During fiscal year 2005, Rural Development reported a \$1 billion Anti-Deficiency Act violation. The violation occurred when a bond guarantee agreement and the related guarantee of payment were executed prior to the approval of the apportionment of funds.⁵ Specifically, the initial note and guaranteed loan level was signed on June 14, 2005, and the apportionment was not approved by OMB until July 20, 2005.

OIG's review of this matter disclosed that controls existed to prevent an Anti-Deficiency Act from occurring; however, management circumvented those controls. Rural Development has stated that to prevent future violations, the unsigned note will be held in the Office of the Assistant Administrator for Electric Programs pending written verification that OMB has processed the Apportionment of Funds.

We are making no further recommendations because the Anti-Deficiency Act was appropriately reported to OMB and the President.

⁵ There is no budget authority associated with the \$1 billion bond guarantee. Section 6101 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) directed the Secretary to guarantee Investment Grade Bonds issued by non-profit lenders if the proceeds were used for electric and telephone projects eligible for assistance under the Rural Electrification Act of 1936.

Exhibit A - Consolidated Financial Statements

**USDA
RURAL DEVELOPMENT
FISCAL YEARS 2005 and 2004
(PREPARED BY RURAL DEVELOPMENT)**



Consolidated Financial Statements

Fiscal Year 2005 and 2004



**Prepared by: The Deputy Chief Financial Officer
St. Louis, Missouri**

Rural Development

Management Discussion and Analysis

As of September 30, 2005

Rural Development's vision for rural America

Mission Statement

This Management Discussion and Analysis (MD & A), in conjunction with the accompanying consolidated financial statements, footnotes, and supplemental information, reflects the activities of the Rural Development mission area of the United States Department of Agriculture (USDA).

Rural Development's vision is for a rural America that is a healthy, safe, and a prosperous place to live, work, and grow. Its mission is to be committed to the future of rural communities. Rural Development is a partner to help increase the economic opportunity and improve the quality of life of rural residents.

Rural Development is a key provider of Federal assistance to meet the diverse needs of rural communities. Rural Development serves as a catalyst to improve conditions in rural America by offering financial and technical assistance needed to improve the quality of life in rural America, increasing the flow of capital through leveraged partnerships, and to help individuals and businesses compete in the global marketplace. These programs consist of a variety of loan, loan guarantee, and grant programs, plus technical assistance in the areas of business development; cooperative development; rural housing; community facilities; water and environment; electric power; and telecommunications, including distance learning and telemedicine.

USDA Rural Development has developed strategic goals that promote the implementation of its mission and vision, and a set of management strategies to ensure that these goals are implemented effectively. Targeted marketing tactics, sound management practices, innovation in the use of resources, and reliance on enhanced technology are integral to achieving these goals. These goals are consistent with Rural Development's efforts to support the President's Management Agenda (PMA). The PMA goals include the strategic management of human capital, improved financial performance, expanded eGovernment, competitive sourcing, support for faith-based organizations, and budget and performance integration.

Key Goals

Two key Rural Development goals are:

Goal 1. Improve the Quality of Life in Rural America. Rural Development will improve the quality of life in rural America by enhancing the ability of rural communities to develop, to grow, to share in a healthy economy, to realize an enhanced quality of life, and to improve their standard of living by targeting financial and technical resources to areas of greatest need through activities of greatest efficacy.

Goal 2. Increase Economic Opportunity in Rural America. Rural Development will increase economic development in rural America by strengthening rural technology infrastructures, providing communities with access to broadband service that allows participation in the developing global economy, providing access to capital and credit for development, encouraging growth and establishment of rural businesses, and promoting energy independence.

Organizational Structure

Rural Development's mission area is comprised of Rural Housing, Rural Utilities, Rural Business-Cooperative, and the Office of Community Development program areas.

Loan Programs

Rural Development loan programs, with an outstanding portfolio of approximately \$90.0 billion, are delivered through a National Office, 47 state offices, and a network of field offices. The mission area is supported by the Office of the Deputy Chief Financial Officer in St. Louis, Missouri, which provides accounting and service support for all mission area programs, and a Centralized Servicing Center, also in St. Louis, which services the Direct Single Family Housing (SFH) portfolio. The mission area serves 335,925 SFH borrowers; 15,316 multi-family housing (MFH) borrowers; 11,276 business and community borrowers; and 1,948 telecommunications, electric, cable TV, broadband and distance learning and telemedicine borrowers.

In addition, through a network of approximately 3,400 lenders, Rural Development guarantees loans for approximately 186,987 SFH; 96 MFH; 3,379 business & community service; and 22 electric & cable TV borrowers.

Rural Development loan programs generally require (1) providing loans to individuals and enterprises that are at a greater risk of default, since they lack the financial resources to obtain credit in the private sector, and (2) making loans bearing an interest rate at or less than the cost of funds. Rural Development has the responsibility to protect the interest of the Government by adequately securing the loans with real estate mortgages, assignments of income, personal and corporate guarantees, and liens on revenues.

The portfolio that follows reflects a total loan portfolio balance higher in fiscal year (FY) 2005 than in FY 2004. There was an increase in the direct portfolio from \$68.1 billion to \$70.1 billion and the guaranteed portfolio from \$19.0 billion to \$19.5 billion.

Total Loan Portfolio as of September 30, 2005			
FY's 2003 Through 2005			
(Dollars in Billions)			
	FY 03	FY 04	FY 05
Direct Loans			
Single Family Housing	\$14.2	\$13.6	\$13.2
Multi-Family Housing	11.8	11.8	11.8
Community Facilities/Other	1.3	1.4	1.9
Water & Environmental/Other	8.0	8.1	8.3
Electric	27.7	28.0	30.1
Telecommunications	3.6	3.6	3.4
Rural Telephone Bank	0.8	0.8	0.6
Business Programs	0.8	0.8	0.8
<i>Total Direct</i>	68.2	68.1	70.1
Guaranteed Loans			
Single/Multi-Family Housing	13.4	13.9	14.3
Community Facilities/Other	0.4	0.4	0.5
Water & Environmental/Other	0.1	0.1	0.1
Electric	0.5	0.5	0.4
Business Programs	4.0	4.1	4.2
<i>Total Guaranteed</i>	18.4	19.0	19.5
Total Loan Portfolio	\$86.6	\$87.1	\$89.6

Rural Development Agencies

Rural Business- Cooperative Programs

The purpose of the Rural Business-Cooperative program is to enhance the quality of life for all rural Americans by providing leadership in building competitive businesses and sustainable cooperatives that can prosper in the global marketplace. Rural Development works in partnership with the private sector and community-based organizations to provide financial assistance and business planning. Rural Development helps fund projects that create or preserve quality jobs and/or promote a clean rural environment. These financial resources are often leveraged with those of other public and private credit source lenders to meet business and credit needs in under-served areas. Eligible recipients include

individuals, Indian tribes, corporations, partnerships, cooperatives, and public bodies.

The Business and Industry (B&I) Guaranteed Loan program's primary purpose is to create and maintain employment and improve the economic climate in rural communities. This is achieved by expanding the lending capability of private lenders in rural areas, helping them make and service quality loans that provide lasting community benefits. The B&I program guarantees up to 80 percent of a loan made by a private lender that can be used to fund business and industrial acquisition, construction, conversion, enlargement, repair or modernization. The maximum aggregate amount to any one borrower is \$25 million, with certain cooperative ventures able to receive loans up to \$40 million.

The program staff has begun an intensive effort to identify the highest risk loans and is aggressively monitoring slow pay and delinquent borrowers. To control an unacceptable growth in the delinquency rate of the guaranteed loan program, focus has been on intensifying training and oversight to protect the highest risk segments of the \$4 billion portfolio.

Key Performance Indicator(s)

Rural Business - Business & Industry Loans Guaranteed	FY 2005 Target	FY 2005 Actual
Delinquency rate (excluding bankruptcy cases)	8%	6.72%

Key Performance Indicator(s)

Rural Business - Business & Industry Loans Guaranteed	FY 2005 Target	FY 2005 Actual
Small Business' Assisted	8,804	12,025

Utilizing the Intermediary Relending Program (IRP), Rural Development provides concessionary loans (1 percent) to intermediaries to re-lend for business facilities and community development projects in rural areas, including cities with a population of less than 25,000 people. Private non-profit corporations, public agencies, Indian tribes, and cooperatives are eligible borrowers. Interest and fee revenue received by the intermediary covers administrative costs and debt retirement. The funds are re-loaned to local small and start up businesses that are not yet eligible for traditional bank loans. The ultimate borrowers demonstrate an ability to start or expand local businesses, thereby creating employment or saving existing rural jobs.

The revolving loans funds financed under the IRP generates job data based on the total loan fund. Jobs are computed for each \$100,000 which on average is the amount that assists one ultimate recipient business. A study found that each business exists for 8.82 years. Therefore, total loan funds available to the

intermediary revolve 3.4 times over the life of the loan. The total impact is 76.5 jobs generated per \$100,000 in the current year budget authority.

The Rural Business Enterprise Grant (RBEG) program makes grants to public bodies, private non-profit corporations, and Federally-recognized Indian tribes to finance and facilitate the development of small and emerging business enterprises. Funds can be used to provide technical assistance such as marketing studies or training to small and emerging businesses. In addition, small and emerging businesses can use these funds to purchase machinery, establish initial capital for revolving funds, or construct facilities for business incubators.

The Rural Economic Development Loan (REDL) and Grant (REDG) programs provide grants and loans to Rural Development borrowers to promote sustainable rural economic development and job creation projects. Loans are used by electric or telephone utilities to relend, at zero percent interest, to eligible recipients.

The purpose of the Rural Business Opportunity Grants (RBOG) is to promote sustainable economic development in rural communities with exceptional needs. This is accomplished by making grants to pay costs of providing economic planning for rural communities, technical assistance for rural businesses, or training for rural entrepreneurs or economic development officials.

On July 18, 2005, the Federal Register published the regulation, governing Section 9006 Renewable Energy/Energy Efficiency Improvement Program (Section 9006). The deadline for submission of 2005 grant applications was June 27, 2005. Applications for guaranteed loan funding will be accepted by USDA Rural Development State Offices in accordance with the new regulation.

The number of jobs to be created or saved is a critical element in determining the viability of a project for funding, and as such, is a key performance indicator. The computed number of jobs created or saved is a 1 time count credited to each B&I loan when program funds are obligated. The number is based on credible information provided by the borrower and lender during the loan application process, based on a feasibility study or business plan, and is entered into the management database by Rural Development field staff. During the first year of the loan and subsequent compliance or servicing visits, Rural Development field staff update and verify the database. The number of jobs is only reported the year the loan is obligated.

Key Performance Indicator(s)

Rural Business-Cooperative Create or save jobs	FY 2005 Target	FY 2005 Actual
B&I Guaranteed Loans	15,030	15,511
IRP Loans	25,964	25,964
RBEG	15,030	23,233
REDL	3,575	4,608
REDG	1,021	1,342
RBOG	2,823	2,670
9006 Grants	413	289
Total	63,856	73,617

The RBOG target was not met due to fewer grants being disbursed than projected. There were 50 grants projected and only 39 were obligated, which resulted in fewer jobs being created during the year.

Fiscal Year 2005 was the first year for the guaranteed renewable energy program. The 9006 Grants target was not met due to new funded projects taking up to a year to become fully operational with employees in place.

Rural Housing Programs

Rural Housing programs improve the quality of life in rural America by building competitive, vibrant rural communities through its community facilities and housing programs.

Single Family Housing Programs

To promote homeownership, Rural Development provides financing, with no down payment and at favorable rates and terms, either through a direct loan or a loan from a private financial institution, which is guaranteed. The Direct SFH program is the largest component of the housing portfolio. Direct SFH loans are made to families or individuals with very-low and low incomes to buy, build, improve, repair, and/or rehabilitate homes in rural areas. These loans are repayable over 33 years (with a maximum repayment of 38 years) at an effective interest rate as low as 1 percent annually. Low-interest loans and grants enable very-low income rural Americans to remove health and safety hazards in their homes and to make homes accessible for people with disabilities.

Rural Development also guarantees loans through partnerships with approximately 1,500 lenders. Loans may be guaranteed for an amount not to exceed 90 percent of the loan amount. Guaranteed loans are available for low and moderate-income families.

These loans are repaid over 30 years with the interest rates negotiated between the customer and lender. The guaranteed loan program reflects the commitment to achieve maximum leveraging of the federal loan funds.

The following table reflects one of the key performance indicators for the SFH direct and guaranteed loan programs' objective of improving the quality of life for the residents of rural communities by providing access to decent, safe, affordable housing. The program provides the 100 percent loan-to-value financing needed to place qualified applicants in modest single family homes. Their quality of life is improved through the advantages of homeownership, which is the American Dream.

Key Performance Indicator(s)

Single Family Housing	FY 2005 Target	FY 2005 Actual
Number of rural households receiving financial assistance to purchase a home of their own.	41,965	43,224

A total of 31,480 guaranteed loans, including subsequent loans and 11,744 direct loans, excluding subsequent loans were made for home purchase during FY 2005. This is 1,259 more homes financed than projected. This increase is due to a lower than anticipated increase in housing prices during FY 2005.

For direct SFH loans, delinquency rate provides a good indicator of how well the accounts are monitored and supervised.

Key Performance Indicator(s)

Single Family Housing	FY 2005 Target	FY 2005 Actual
Delinquency rate (Direct loans only)	Within 500 basis points of Federal Housing Administration rate	2Q -05 FHA rate = 12.37% RHS rate = 10.15% RHS rate is 2.22 basis points better than the FHA rate

This indicator compares the Federal Housing Administration (FHA) quarterly delinquency rate, as reported by the Mortgage Banker's Association, to the USDA Direct SFH loan delinquency rate, net of foreclosures. The FHA rate includes all loans that are 30 days or greater delinquent; net of foreclosures that are more than 45 days old.

Federal Housing Administration's (FHA) last reported delinquency for June 2005 was 12.37 percent, net of foreclosure. Rural Development's delinquency for the single family housing direct loan program for the same period was 10.15 percent, net of foreclosure. When Rural Development's delinquency net of foreclosures (10.15%) is compared to HUD's net of foreclosures (12.37%), USDA is 222 basis points lower than HUD's results.

Multi-Family Housing Programs

The MFH program finances rural rental housing, farm labor housing, and cooperative housing for low income and elderly residents in rural communities of under 10,000 population.

Rural rental housing loans enable developers to provide housing for the elderly, disabled individuals, and families who cannot afford the purchase price and maintenance costs of their own houses. In addition, grants are provided to public nonprofit organizations to assist rental property owners and co-ops to repair and rehabilitate their units.

Farm labor housing loans and grants enable farmers, public or private nonprofit organizations, and units of state and local governments to develop or rehabilitate farm labor housing for seasonal and year-round workers.

Guaranteed rental housing loans provide Federal Government guarantees for loans made by commercial lenders to developers of multi-family housing units for low- and moderate-income tenants in rural areas. USDA guarantees up to 90 percent of a loan made by a qualified lender. The program is designed to complement other affordable housing sources of financing, such as low-income housing tax credits.

To maintain an aging long-term quality portfolio, Rural Development has assessed the capital needs of its multi-family housing portfolio to develop a long-term strategy for preserving projects in the portfolio for low-income residents. The result of these assessments established a section 515 multi-family portfolio revitalization program to provide for the 20-year deferral of repayments on existing debt, in exchange for project sponsors making necessary investments for the repair and rehabilitation of their projects. The cost of these repairs and rehabilitation cannot be included in rents.

Sustaining a low delinquency rate is an indicator to illustrate that the MFH loan portfolio is managed in a manner that is efficient and effective. Rural Development's goal to provide more quality housing to improve the lives of rural residents is achieved when delinquency and losses are minimized. By minimizing losses, the availability of affordable housing for eligible rural residents is maintained.

Key Performance Indicator(s)

Multi-Family Housing	FY 2005 Target	FY 2005 Actual
Number of projects with accounts more than 180 days past due (Direct loans only)	135	154

The delinquency rate for the Multi-family portfolio as of September 30, 2005 was 2%. This compares favorably with other assisted housing providers. The number of properties with accounts more than 180 days past due is higher than originally targeted due to unexpected increases in insurance and utility expenses at multi-family properties.

Rental Assistance provides project-based rental assistance payments to property owners to subsidize the tenants' rent at an affordable level. By providing rental assistance, resources are directed to those rural communities and customers with the greatest need.

Key Performance Indicator(s)

Multi-Family Housing	FY 2005 Target	FY 2005 Actual
Total number of units selected for funding for new construction	4,057	4,443
Total number of units selected for funding for rehabilitation	8,306	8,571
Decrease in number of families in substandard housing in the multi-family portfolio	1,995	2,108
Decrease in number of families in the multi-family properties paying more than 30 percent of income in rent	80,000	76,187
Increase the amount of leveraged funds in Rural Rental Housing for both new construction and rehabilitation	\$73,000,000	\$379,209,921

The new construction units selected for funding, the units selected for rehabilitation, and the decrease in the number of families in substandard housing were all above the FY 2005 target primarily due to increased leverage utilized with MFH money. This enabled MFH to create / rehabilitate more units for a given funding level. MFH estimated that 80,000 families would pay more than 30 percent of their income toward rent, however; only 76,187 paid more than 30 percent of their income, therefore, meeting the target for FY 2005.

The leverage amount from other funding sources for new construction and rehabilitation has exceeded management's target by more than 400 percent. This leverage amount represents approximately \$1.40 of other resources for each dollar MFH puts into a project.

Community Facilities Programs

Community Facility programs offer both direct and guaranteed loans to public entities such as municipalities, counties, and special purpose districts as well as nonprofit corporations and Indian tribes. These loans improve the quality of life of rural residents by providing access to modern, essential community facilities such as hospitals and health care clinics; fire, rescue and public safety facilities; educational facilities; nursing homes and assisted living facilities; and child and adult day care facilities. Recipients must demonstrate that they are unable to obtain financing from commercial sources. The term of the loan will be the useful life of the facility financed, State statute, or 40 years, whichever is less.

Low delinquency rates are a key indicator of the effectiveness of the program delivery. If the projects are beneficial to the community and well managed, the delinquency rates will be low, and the rural residents will continue to receive essential services.

Key Performance Indicator(s)

Community Facilities	FY 2005 Target	FY 2005 Actual
Delinquency rate for Community Facility customers	2%	1.59%

The Community Facilities delinquency rate of 1.59 percent indicates that program managers are practicing prudent loan-making and prompt intervention in problem cases to ensure that the facilities financed are viable and continue to provide vital services to the neediest rural communities.

Rural Utilities Programs

Rural Utilities programs improve the quality of life in rural America by providing capital for its electric, telecommunications (including distance learning and telemedicine), and water and environmental projects in a service-oriented, forward-looking and financially responsible manner. The Rural Utilities programs leverage scarce federal funds with private capital for investing in rural infrastructure, technology, and the development of human resources. Financial assistance is provided to rural utilities; municipalities; commercial corporations; public utility districts; Indian tribes; and cooperative, nonprofit, limited-dividend, or mutual associations. These entities are obligated to serve the public welfare and, in many instances, are subject to state regulatory oversight.

Electric Program

As restructuring of the electric industry advances toward a more competitive environment, Rural Development is ensuring the continued availability of reliable, high-quality electric service at a reasonable cost to rural consumers. The Electric programs provide financing and technical assistance to upgrade, expand, and maintain the vast electric utility infrastructure in rural America.

The Electric programs make loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities, including system improvements and replacement required to furnish and improve electric service in rural areas. Rural Development makes loans to corporations, states, territories, subdivisions, and agencies such as municipalities, utility districts, and cooperative, nonprofit, limited-dividend, or mutual associations that provide retail electric service needs to rural areas or power supply needs of distribution borrowers in rural areas. The program staff services approximately 700 active electric borrowers in 46 states, plus active territories of Marshall Islands, Puerto Rico, and American Samoa.

The electric cooperatives in the U.S. include 865 Distribution and 65 Generation and Transmission cooperatives. Cooperatives serve 37 million people in 46 states, 16 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in 2,500 of 3,100 counties in the U.S. Cooperatives serve approximately 12 percent of the nation’s population covering 75 percent of the nation’s landmass.

Due to the lack of densities, electric cooperatives generate less revenue per investment than other electric utilities. Electric cooperatives serve an average of 7 consumers per mile of line and collect annual revenue of approximately \$8,500 per mile of line. Investor-owned utilities average 34 customers per mile of line and collect \$59,000 per mile of line. Publicly owned utilities, or municipals, average 44 consumers and collect \$72,000 per mile of line.

Rural Development’s goal of improving the quality of life of rural residents by promoting and providing access to capital and credit for the development and delivery of modern affordable utility services is reflected in the following performance indicators.

Key Performance Indicator(s)

Rural Utilities - Electric Loans – Direct and Guaranteed Loans	FY 2005 Target	FY 2005 Actual
Number of subscribers receiving new and/or improved service	2,040,822	2,055,659
Dollar amount for number of subscribers receiving new and/or improved service	1,219,115,000	1,219,115,000

Previously only Hardship Loan amounts and subscribers were included in this report as the Electric programs calls this loan type its direct loans. However, it was determined that direct loans were to include all types other than the guaranteed loans. Therefore, the above includes all Electric programs direct loans (Hardship, Treasury, and Municipal).

The Electric program area revised its FY 2005 Targets based on the explanation provided in the paragraph above. The new estimate for FY 2005 for subscribers was 2,040,822 with the estimated dollar amount of \$1,219,115,000. As noted above, the number of subscribers and dollar amount estimates were met. The

dollar amount was exactly as estimated with the number of subscribers less than 1 percent over the estimated number.

The Rural Development Electric programs offer the following financing assistance: Hardship Loans, Treasury Rate Loans, Municipal Rate Loans, and Loan Guarantees. The primary differences between the programs are the qualifying criteria and the interest rate for each type of financing.

Guaranteed loans are provided by Rural Development primarily through the Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation, and the National Bank for Cooperatives. The FFB is an agency within the United States Treasury providing funding in the form of loans for various government lending programs, including the Rural Development Utilities programs, Electric programs, and Guaranteed loan programs. FFB loans are guaranteed by Rural Development and are available to all electric borrowers, but primarily used for generation and transmission loans. .

Telecommunications Program

In order to meet the goal of increasing economic opportunity in rural America, USDA annually finances access to a seamless, nation-wide telecommunications network. Without access to advanced telecommunications networks, rural America will suffer the consequences in the form of declining educational opportunities, inadequate health care, depressed economies, and high unemployment.

Since private capital for the deployment of broadband services in rural areas is not sufficient, incentives offered by Rural Development are more important than ever before. Providing rural residents and businesses with barrier-free access to the benefits of today's technology will bolster the economy and improve the quality of life for rural residents and, ultimately, increase not only economic opportunity in rural America, but to the Nation as a whole.

Over the past 3 years, nearly \$3 billion in loans have been provided to 211 entities for the deployment of advanced, state-of-the-art telecommunications networks serving rural areas. The facilities financed with these loans must be capable of offering high-speed service to all subscribers that request it. The primary technologies used to deliver this service are "digital subscriber line" - or DSL - service and "fiber-to-the-home" - or FTTH - systems.

The Telecommunications program contains three major components: 1) loans for infrastructure improvement and expansion; 2) loans and grants for distance learning and telemedicine initiatives in rural areas; and 3) loans and grants specifically targeted for the deployment of broadband service in small towns and communities. Utilizing advanced telecommunications services, combined, these programs provide USDA with a powerful tool in building strong rural economies and increasing educational and health care services in rural communities across the United States.

Key Performance Indicator(s)

Rural Utilities - Telecommunication	FY 2005 Target	FY 2005 Actual
Number of subscribers receiving new and/or improved service	164,563	161,476
Leveraging of telecommunications financial assistance (private investment to Rural Development and Rural Telephone Bank funding)	\$3.74:1	\$3.85:1

The number of subscribers receiving new and/or improved services was slightly under the target.

The leveraging performance indicator was met. This indicator measures the extent to which borrowers are investing in plant with funds other than Rural Development funds.

The Distance Learning and Telemedicine Program

Distance Learning and Telemedicine Program (DLT) program is having an impact in rural America by assisting rural schools and learning centers in gaining access to improved educational resources, and by assisting rural hospitals and health care centers in gaining access to improved medical care. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically underserved areas by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Distance Learning projects provide funding for computers and internet hookups in schools and libraries and promote confidence in, and understanding of, the world-wide-web and its benefits to students and young entrepreneurs.

Key Performance Indicator(s)

Rural Utilities - Distance Learning and Telemedicine	FY 2005 Target	FY 2005 Actual
Number of schools receiving distance learning facilities	629	0
Number of healthcare providers receiving telemedicine facilities	183	0
Leveraging of telemedicine and distant learning financial assistance (private investment to Rural Development funding)	\$1:\$1	\$0

The targets were not met due to changes in the DLT review process. These changes in FY 2005, brought uniformity and thoroughness in completing this review process, however, it took more time than expected to execute the 162 applications as well as respond to the 25 appeals received by the deadline.

Broadband Program

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) established a new loan and loan guarantee program “Access to Broadband Telecommunications Services in Rural Areas.” This program is designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less. Program funds are provided through a variety of direct and guaranteed loans.

The building and delivery of advanced telecommunications networks are having a profound effect on our Nation’s economy, its strength, and its growth. Broadband networks in small rural towns will facilitate economic growth and provide the backbone for the delivery of increased educational opportunities over state- of-the-art telecommunications networks. While rural America can be defined by various statistics – number of counties: 2,300; or percentage of landmass: 80 percent -- the most important statistic is that rural America is home to 55 million people. Just as our citizens in our cities and suburbs benefit from access to broadband services, so should our rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources. The promise of broadband is not just “faster access,” it means:

- New educational opportunities through distance learning – enabling rural students to take virtual field trips to places all over the world, from historic Williamsburg to the Louvre;
- Life saving medical treatment over telemedicine networks – allowing for specialists to guide surgeries hundreds of miles away; and
- Economic growth and new markets - where businesses prosper and grow locally, while competing nationally and globally over high-speed networks and inter-connecting with suppliers, manufacturers, and consumers to optimize business strategies.

Key Performance Indicator(s)

Rural Utilities - Broadband	FY 2005 Target	FY 2005 Actual
Number of new or improved subscribers receiving service	221,426	482,391

The target was met. Although not all the lending authority was expended, the projects approved provided funding for a larger amount of subscribers than anticipated.

Today's advanced telecommunications networks will allow rural communities to become platforms of opportunity for new businesses to compete locally, nationally, and globally and ensure that no rural resident – from students to parents and teachers, from patients to doctors, or from consumers to entrepreneurs – will be left behind in this new century.

Water and Environmental Program

Water and Waste Disposal loans and grants are provided to rural communities for the development, replacement, or upgrading of water and environmental facilities. Direct loans are repayable up to 40 years. The Water and Environmental program anticipates serving 162,500 subscribers quarterly and 650,000 on an annual basis. Targets are based on historical activity and are adjusted according to the program level received each fiscal year.

One of the objectives of the Water and Environmental program is to provide rural residents with modern and affordable water and waste disposal services. Another objective is to direct program resources to those rural communities with the greatest need. This includes rural communities that are poverty-stricken as a result of out-migration, natural disasters or economic stress due to Federal actions.

Key Performance Indicator(s)

Rural Utilities – Water and Environmental	FY 2005 Target	FY 2005 Actual
Customers served by new or improved water & waste disposal facilities	650,000	1,325,274

We anticipated serving 162,500 subscribers quarterly and 650,000 on an annual basis. Quarterly targets for this measure are based on historical activity and are adjusted according to the program level received each fiscal year. Except for the first quarter before we received our full budget, we have exceeded our performance targets. We surpassed our goal for FY 2005 by serving 1,325,274 subscribers. Several factors have contributed:

- We implemented a “use or lose” policy for funding, which spurred rapid obligation activity over the third and fourth quarters.
- The trend for many water and sewer systems, especially drinking water, is to develop more regional projects that would serve a larger subscriber base.
- We received an appropriation of \$50,000,000 for Emergency Hurricane and Tropical Storms (HTS) grants. In FY 2005, we obligated \$39 million for projects in HTS areas, which increased the number of subscribers served.

Office of Community Development

Effective community development involves multiple partners working together on an effort that is long-term (often ten years or more) and comprehensive (covering jobs, education, health care, water quality, and many other aspects of community life). Community leaders and citizens are the lead players in developing and

implementing a local strategic plan. In many distressed rural communities (reflected in high poverty rates, high unemployment rates, and/or high out-migration rates), Rural Development is a critical partner in successful community development.

Rural Development often performs two functions in assuring that a distressed community can develop and implement a successful approach to community development. First, Rural Development provides funding for both the creation and the implementation of a community’s strategic plan. For instance, over the past decade, 61 highly distressed communities have been provided multi-year grants through the Empowerment Zone-Enterprise Community (EZ/EC) program and through the Rural Economic Area Partnerships (REAP) Zone program. Second, Rural Development staff provides technical assistance on key community development skills such as strategic planning, nonprofit board responsibilities, and fiscal management; this technical assistance is often vital for the success of a community’s work. In addition, community development technical assistance has been provided to over 100 other distressed rural communities designated as Champion Communities.

For Rural Development to effectively serve its customers and provide the high quality technical assistance that will enable distressed communities to thrive, strong staff competence on community development skills is needed. Thus, Rural Development staff training is an essential element of community development success.

Among the dozens of possible indicators of effective community development, we present only two here. These indicators underline two key aspects of successful community development: first, the creation and maintenance of a strong job base is a necessary ingredient for every community; and, second, each community must reach far beyond Rural Development for the financial resources needed to implement its strategic plan and build a vibrant community.

Key Performance Indicator(s)

Office of Community Development	FY 2005 Target	FY 2005 Actual
Number of jobs created and saved in Rounds I, II and III EZ/EC/CC & REAP communities	1,800	2,446
Rounds I, II & III EZ/EC/CC & REAP communities’ leveraged dollars	120,000,000	360,919,000

The actual numbers presented here come from the Benchmark Management System (BMS). The BMS is used to track the progress that each community is making in achieving its various objectives, including the creation and saving of jobs and leveraging of dollars.

Future Opportunities and Challenges

Rural Development is impacted by changes occurring in society as a whole. The growing concern about security as a result of the events of September 11, 2001, has resulted in the development of plans for continuing business in emergency situations and strengthened protection of business data and our informational systems. All Rural Development major applications and general support systems have been certified and accredited to meet legislative and regulatory mandates. It has also impacted some of our customers, such as the Water and Environmental project receiving Rural Development assistance which must be safe from terrorist attacks.

In August and September 2005, parts of Mississippi, Louisiana, Alabama, Texas, and Florida were devastated by Hurricanes Katrina and Rita. Residences and infrastructure in this region were destroyed, and the government identified large parts of this region as federally-declared disaster areas. Rural Development has coordinated with private partners to restore utilities, such as electric, water, and telecommunications, to rural communities in the Gulf Coast region devastated by hurricanes.

Additionally, Rural Development has placed almost 6,000 evacuees in over 2,100 available housing units in 27 states, provided almost 21,000 families with temporary loan forbearance agreements on their mortgage payments, and received over 6,500 calls for assistance from affected residents. To speed the process of helping those affected by the hurricane, USDA has placed employees in the field with wireless Internet laptops to assist victims in completing the Federal Emergency Management Agency benefits application process. A complete inventory of Rural Development-financed facilities in the areas impacted by the hurricanes is being prepared. At this time, the complete financial impact to Rural Development remains uncertain until all devastated areas are assessed.

The President's Fiscal Year 2006 Budget proposes to establish the process and terms to implement a dissolution of the Rural Telephone Bank (RTB) due to insufficient demand for the bank's loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock at par value. In August 2005, the RTB board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB, subject to there being no legal restriction on redeeming Government owned Class A Stock.

Technology

Rural Development is responding to the increasing demand for eGovernment services and capabilities by supporting the USDA eGrants and eDeployment initiatives. Rural Development has developed a USDA-wide interface solution that allows USDA to receive grant applications from the GRANTS.gov site in a fully automated seamless manner. As part of the eDeployment initiative, Rural Development has deployed and is currently enhancing the first USDA enterprise-wide document management application. Rural Development also currently offers via the internet over 150 forms to the public. These forms can be completed online and electronically submitted to field service centers for processing.

Rural Development is also promoting web-based business applications such as the capability to advertise and sell single family, multi-family, and business properties via the internet. This capability has been extended to the Farm Service Agency in the advertisement and sale of farm properties. Rural Development took the lead in developing and deploying a "Homes for Sale" portal with the Department of Housing and Urban Development and the Veteran's Administration. Rural Development is now engaged in working with the General Services Administration to develop a portal to advertise other federal properties for sale.

Multi-Family Housing project management tenant data can now be entered via the internet and rental properties are being advertised via the internet to the public. New Multi-Family Housing automated rental assistance forecasting tools have been designed, developed, and put into use and will continue to be enhanced as more historical data is gathered.

Under development is an initiative to provide a web-based automated underwriting system to guaranteed loan lenders to allow them to more efficiently review and approve loan applications for Rural Development Single Family Housing Guaranteed loans. Lenders participating in Rural Development guaranteed loan programs are now able to submit loan loss claims via the internet.

Within Rural Development, initiatives such as the Data Warehouse provide employees with faster and easier access to data that crosses all business lines. The demand to geo-code tabular loan data is growing significantly. Rural Development recently developed and deployed reports and maps for the Department of Agriculture which reflect civil rights data.

Rural Development is currently updating tactical business plans for all major loan programs that will outline how current business processes will be transformed in order to electronically deliver programs directly to the public.

USDA eAuthentication is a system utilized by USDA agencies to enable customers to register and obtain accounts that allow them to access USDA web applications and services via the Internet. This includes submitting forms electronically, completing surveys online, and checking the status of USDA accounts. Rural Development is working closely with USDA to deploy the secure technical environment necessary to support the delivery of programs to the public. Rural Development is collaborating with the Farm Services Agency and the National Resources Conservation Service to employ common software development tools and to share program modules to leverage IT investments.

These initiatives will impact Rural Development's future policies and regulations, automated systems, and organizational structure.

Budget and Performance Integration

Budget and Performance Integration is one of the government-wide initiatives in the President's Management Agenda. This initiative focuses on performance and the utilization of key data in budget decisions.

High Speed Internet Access

The advent of electronic commerce offers a great opportunity to rural businesses to participate in the global market, especially for the small entrepreneur or cooperative whose business is operating in a niche market. Internet access can also offer rural residents improved education and health care opportunities. Rural Development, through its telecommunication programs, is an important provider of broadband service to rural America.

Changes in Agriculture

While farming continues to be an important component in the economy of many rural areas, the agriculture industry is changing. In order to increase farm income, many farmers are looking at value-added opportunities. The alternative fuel industry is also developing rapidly which provides additional opportunities to farmers to market their products as well as use by-products of their existing operation as an additional source of income. New authorities granted to Rural Development in the 2002 Farm Bill are targeted to assisting these changes in agriculture.

Multi-Family Housing

Recent court decisions have given numerous multi-family housing borrowers the opportunity to pay off their debt to Rural Development and use the property for something other than housing low income families. As a result of this action, rural America may lose a number of rental housing projects dedicated to housing low income families and the tenants living in these properties, many of whom are receiving rental assistance through Rural Development, will lose their access to rent subsidies. Rural Development will strive to retain as many of these projects for low income housing purposes as possible and work to minimize the impact on the existing tenants.

Highlights of Rural Development's Financial Position

The accompanying financial statements include the combined financial information for rural housing, rural utilities, and rural business-cooperative development programs.

Limitations on Financial Statements

These consolidated financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990. While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed, 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.

Entity's Systems, Controls And Legal Compliance

The purpose of the Federal Managers' Financial Integrity Act (FMFIA) is to promote the development of systematic and proactive measures to ensure management accountability for the effectiveness and efficiency of program operations.

Section 2

Section 2 of the law focuses on the assessment of the adequacy of management controls to manage the risk associated with a given program and to provide reasonable assurance that obligations/costs comply with applicable laws and regulations; that Federal assets are safeguarded against fraud, waste and mismanagement; and that transactions are properly recorded and accounted for.

A material weakness identifies an instance in which the management controls are not sufficient to provide the level of assurance required by Section 2 and requires major milestones for corrective action. Such a weakness may significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements, significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

For FY 2005, Rural Development is reporting that our internal controls are compliant with Section 2 of the FMFIA Report.

For FY 2005, Rural Development reported a violation of the Antideficiency Act. The violation occurred when a bond guarantee agreement and the related guarantee of payment were executed prior to the approval of the apportionment of funds. Specifically, the initial note and guaranteed loan level was signed on June 14, 2005, and the apportionment was approved by the Office of Management and Budget (OMB) on July 20, 2005. This program authorized Rural Development to guarantee Investment Grade Bonds issued by non-profit lenders if the proceeds were used for electric and telephone projects eligible for assistance under the Rural Electrification Act of 1936. This credit program had unique pricing, terms, and conditions much different than Rural Development's traditional credit programs. The sequencing of the obligation and the apportionment occurred because more time was required for all parties to review and approve the credit subsidy analysis than was anticipated. Once the obligation was made without an apportionment of the guaranteed loan level, the Antideficiency Act occurred. Although executed documents were exchanged among the parties, no funds were scheduled to be disbursed at that time. The controls built into the financial management system prevented any attempts to disburse a portion of the funds and the violation was discovered. To prevent future violations, the unsigned note will be held in the Office of the Assistant Administrator for Electric Programs pending written verification that OMB has processed the Apportionment of Funds.

Section 4

Section 4 of the law relates to the review of financial accounting systems to ensure conformance with certain principles, standards, and other Federal requirements. A financial system nonconformance is an instance in which the financial system does not conform to the requirements of Section 4. A nonconformance also requires major milestones for corrective action.

For FY 2005, Rural Development certifies that our financial management systems are compliant with Section 4 of the FMFIA Report.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 requires that the head of each agency annually review all programs and activities the agency administers to identify those that may be susceptible to significant improper payments. For each program or activity identified, the agency is required to estimate the annual amount of improper payments and, if the estimate is over \$10 million, report the estimate to Congress along with the actions the agency is taking to reduce those improper payments.

Rural Development responded that all of its applicable programs had been assessed and reported that the Rural Development mission area had only one program, Section 521 Rental Assistance, identified as potentially being susceptible to significant improper payments and meeting the requirements for a statistically valid estimate of improper payments.

Actual Improper Payments	2004		2005	
	Dollars	Rate	Dollars	Rate
Program Outlays	\$775.4M		*\$846.1M	
Total Improper Payments	\$20.088M	2.59%	\$26.957M	3.19%
Overpayments	\$12.804M	1.65%	\$17.498M	2.07%
Underpayments	\$ 7.284M	0.94%	\$ 9.459M	1.12%
Other Improper Payments	N/A	N/A	N/A	N/A

*Estimated

The future target rates for improvement are:

Future Targets for Improvement	2006	2007	2008
Improper Payment Rate	2.99%	2.79%	2.59%

Rural Development implemented a corrective action plan. A statistical sampling plan for use in estimating the error percentage and amount of improper payments has been developed. The Rural Development plan is based on the universe of multifamily properties that receive rental assistance, selecting a 2 percent sample of the properties for review.

The oversight of borrowers and management agents was improved through the implementation of the 7Code of Federal Regulations 3560, the new Multi-Family Housing regulation, dated February 24, 2005. Because of the newness of the regulation, Rural Development has not yet seen results of the improved guidance.

In addition, Rural Development is in the process of seeking legislation to obtain access to a data base of “new hires” information maintained by Health and Human Services. Also, Rural Development is requesting that the legislation included allowing borrowers and their management agents access to the “new hires” information because they are responsible for collecting and verifying the tenant’s income documentation.

Rural Development is training field staff and restructuring the supervisory visit procedure to strengthen and provide more focus when reviewing tenant files.

Rural Development will seek repayment of all valid unauthorized assistance received by the borrower or tenant, plus the cost of collection, to the fullest extent of the law.

Information system and infrastructure improvements needed to detect or reduce improper payments are not anticipated.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2005 AND 2004
(In Millions)

	2005	2004
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 11,637	\$ 11,211
Accounts Receivable, Net (Note 5)	8	9
Total Intragovernmental	11,645	11,220
Cash and Other Monetary Assets (Note 4)	91	82
Accounts Receivable, Net (Note 5)	1	0
Loans Receivable and Related Foreclosed Property, Net (Note 6)	60,761	56,820
General Property, Plant and Equipment, Net (Note 7)	68	62
Other (Note 8)	36	37
Total Assets	72,602	68,221
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	1	1
Debt (Note 10)	54,365	51,131
Resources Payable to Treasury (Note 1N)	8,551	8,350
Other (Note 12)	1,291	369
Total Intragovernmental	64,208	59,851
Accounts Payable	101	92
Loan Guarantee Liability (Note 6)	926	784
Debt Held by the Public (Note 10)	2	2
Stock Payable to RTB Borrowers (Note 11)	1,390	1,343
Federal Employee and Veteran Benefits (Note 9)	30	32
Other (Note 12)	195	192
Total Liabilities	66,852	62,296
Commitments and Contingencies (Note 13)		
Net Position:		
Unexpended Appropriations	5,207	5,506
Cumulative Results of Operations	543	419
Total Net Position	5,750	5,925
Total Liabilities and Net Position	\$ 72,602	\$ 68,221

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Millions)

	<u>2005</u>	<u>2004</u>
Program Costs (Note 14):		
Intragovernmental Gross Costs	\$	\$
Borrowing Interest Expense	3,024	3,104
Other	290	235
Total Intragovernmental Gross Costs	<u>3,314</u>	<u>3,339</u>
Less: Intragovernmental Earned Revenue (Note 15)	<u>416</u>	<u>349</u>
Intragovernmental Net Costs	2,898	2,990
Gross Costs with the Public:		
Grants	1,810	1,692
Loan Cost Subsidies	(403)	300
Other	323	415
Total Gross Costs with the Public	<u>1,730</u>	<u>2,407</u>
Less: Earned Revenues from the Public (Note 15)	<u>3,920</u>	<u>3,620</u>
Net Costs with the Public	(2,190)	(1,213)
Net Cost Of Operations	\$ 708	\$ 1,777

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Millions)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances:	\$ 419	\$ 5,506	\$ (21)	\$ 5,700
Prior Period Adjustments	0	0	0	0
Beginning Balances, as Adjusted	419	5,506	(21)	5,700
 Budgetary Financing Sources:				
Appropriations Received	0	2,997	0	3,154
Appropriations Transferred-in/out	0	11	0	19
Other Adjustments (rescissions, etc.)	0	(75)	0	(47)
Appropriations Used	3,232	(3,232)	3,320	(3,320)
Transfers-in/out Without Reimbursement	(2,529)	0	(1,201)	0
 Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	129	0	98	0
Total Financing Sources	832	(299)	2,217	(194)
 Net Cost of Operations	(708)	0	(1,777)	0
Net Change	124	(299)	440	(194)
Ending Balances	\$ 543	\$ 5,207	\$ 419	\$ 5,506

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Millions)

	2005		2004	
	Budgetary	Non-Budgetary Credit Program Financing Accts.	Budgetary	Non-Budgetary Credit Program Financing Accts.
Budgetary Resources:				
Budget Authority:				
Appropriations Received	\$ 2,997	\$ 0	\$ 3,457	\$ 0
Borrowing Authority (Notes 17 & 18)	0	8,475	2	8,480
Net Transfers	1	0	3	0
Unobligated Balance:				
Beginning of Period	3,751	1,815	2,298	1,391
Spending Authority from Offsetting Collections:				
Earned				
Collected	4,738	5,272	5,852	4,943
Receivable from Federal Sources	19	0	(15)	(4)
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	5	0	(96)
Recoveries of Prior Year Obligations	273	487	309	543
Permanently Not Available	(2,816)	(2,808)	(2,981)	(2,346)
Total Budgetary Resources	\$ 8,963	\$ 13,246	\$ 8,925	\$ 12,911
Status of Budgetary Resources:				
Obligations Incurred: (Note 16)				
Direct	\$ 3,949	\$ 11,262	\$ 4,665	\$ 11,096
Reimbursable	520	0	509	0
Unobligated Balance:				
Apportioned	362	1,457	396	1,434
Unobligated Balance Not Available				
	4,132	527	3,355	381
Total Status of Budgetary Resources	\$ 8,963	\$ 13,246	\$ 8,925	\$ 12,911
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	6,526	16,929	6,916	14,389
Obligations Incurred	4,469	11,262	5,174	11,096
Less:				
Recoveries of Prior Year Obligations	273	487	309	543
Changes from Federal Sources	19	5	(15)	(100)
Obligated Balance, Net, End of Period:				
Accounts Receivable	(97)	0	(78)	0
Unfilled Customer Orders from				
Federal Sources	0	(624)	0	(618)
Undelivered Orders	5,851	18,485	6,319	17,547
Accounts Payable	268	11	285	0
Total Obligated Balance, Net, End of Period	6,022	17,872	6,526	16,929
Disbursements				
4,681	4,681	9,827	5,270	8,113
Collections & Advances Received	(4,738)	(5,272)	(5,852)	(4,943)
Outlays:				
(57)	(57)	4,555	(582)	3,170
Less: Offsetting Receipts				
538	538	0	387	0
Net Outlays	\$ (595)	\$ 4,555	\$ (969)	\$ 3,170

See required supplementary information at the end of these footnotes for a breakdown by major budget account.

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Millions)

	2005	2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 15,731	\$ 16,270
Less: Spending Authority from Offsetting Collections and Recoveries	10,794	11,532
Obligations Net Offsetting Collections and Recoveries	4,937	4,738
Less: Offsetting Receipts	538	387
Net Obligations	4,399	4,351
Other Resources		
Imputed Financing from Costs Absorbed by Others	129	98
Net Other Resources Used to Finance Activities	129	98
Total Resources Used to Finance Activities	4,528	4,449
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	464	2,259
Resources That Fund Expenses Recognized in Prior Periods	391	604
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(9,498)	(10,245)
Other	(538)	(387)
Resources That Finance the Acquisition of Assets	10,718	9,375
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,537	1,606
Total Resources Used to Finance the Net Cost of Operations	2,991	2,843
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	0	3
Upward/Downward Reestimates of Credit Subsidy Expense	(782)	(124)
Increase in exchange revenue receivable from the public	1	0
Other	(33)	(6)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(814)	(127)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	6	4
Revaluation of Assets or Liabilities	1	0
Other	(1,476)	(943)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(1,469)	(939)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	(2,283)	(1,066)
Net Cost of Operations	\$ 708	\$ 1,777

The accompanying notes are an integral part of these statements.

RURAL DEVELOPMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2005 AND 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the United States Department of Agriculture (USDA) Rural Development mission area. The financial statements have been prepared from the books and records in accordance with the Office of Management and Budget (OMB) *Circular A-136, Financial Reporting Requirements*.

The amounts in the fiscal year (FY) 2004 column of the financial statements have been reclassified due to evolving changes in the guidance. This reclassification will facilitate a meaningful comparison between FY 2005 and FY 2004. Footnotes have also been reclassified due to evolving changes in guidance or presentation preferences.

B. Reporting Entity

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354, was signed into law and this law permitted the reorganization of the Department of Agriculture. This law reaffirmed Rural Development's statutory authority. The mission area provides funding for rural housing programs, rural utilities programs, and rural business programs within the USDA.

C. Basis of Accounting

The accounting principles and standards applied in preparing the financial statements are in accordance with guidance from the Federal Accounting Standards Advisory Board (FASAB), the Director of OMB and Comptroller General, which constitute generally accepted accounting principles for the Federal Government and its component entities. Guidelines from the Federal Credit Reform Act of 1990 contained in the Omnibus Budget Reconciliation Act of 1990 are also applied.

Pre-Credit Reform and Post-Credit Reform nonfederal transactions are recorded on a cash accounting basis, except for the accrual of interest related to borrower loans; Federal transactions are recorded on an accrual accounting basis. Under the cash method, revenues are recognized when cash is received and expenses are recognized when they are paid. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of Federal funds.

All significant interfund and intrafund balances and transactions have been eliminated in the consolidation except for those Credit Reform transactions impacting the Statements of Budgetary Resources and Financing.

D. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

E. Revenue and Other Financing Sources

Revolving/Credit Funds:

Beginning in FY 1992, the Federal Credit Reform Act of 1990 contained in the Omnibus Budget Reconciliation Act of 1990, provided Credit Reform procedures which affected the financing of the revolving funds. Under Credit Reform, an appropriation is received in the year the loan is made in a sufficient amount to cover the subsidy cost of providing the loan. The subsidy cost is defined as the net present value, at the time of disbursement, of the difference between the Government's estimated cash disbursements for that loan and the Government's estimated cash inflows resulting from that loan (e.g., repayments of principal and interest, and other payments adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries). Consequently, the implementation of Credit Reform has resulted in authorized appropriations which provide for estimated future losses, as opposed to appropriations which provided for reimbursement of past losses actually sustained prior to FY 1992. In addition to subsidy appropriations, the other sources of funding for the revolving funds include borrowings from Treasury and borrower loan repayments.

General Funds:

Appropriations are provided by Congress on both an annual and multi-year basis to fund certain general funds and other expenses such as personnel, compensation, fringe benefits, rents, communications, utilities, other administrative expenses, and capital expenditures. The current budgetary process does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources as paid; however, for financial reporting purposes under accrual accounting, operating expenses are recognized in the current reporting period. Expenditures

for capital and other long-term assets are capitalized and are not recognized as expenses until they are consumed during normal operations. Appropriations for general fund activities are recorded as a financing source when expended. Unexpended appropriations are recorded as Net Position.

F. Fund Balance with Treasury

All receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains the appropriate bank accounts.

G. Escrow Disbursement Account

With the implementation of the Centralized Servicing Center on October 1, 1996, Rural Development began collecting escrow payments (i.e., insurance and taxes) from new single family housing borrowers. Existing borrowers, which are delinquent and require servicing actions, must also submit escrow payments. The escrow payments are deposited with the Trustee, U.S. Bank. The Trustee is required to invest and disburse these funds as stipulated in the Trust Agreement. As of September 30, 2005 and 2004, the balance in this account was \$91 million and \$82 million, respectively. This amount has been included in the Consolidated Balance Sheet on the Cash and Other Monetary Assets (**Note 2**) and Other Liabilities (**Note 12**) lines. It has also been included on the Cash and Total Cash and Other Monetary Assets lines (**Note 4**).

H. Lending Activities

Direct loans are made by appropriated authority. These loans represent actual cash disbursements to borrowers which require repayment.

Other lending activities include the guarantee of loans for single family housing, multi-family housing, and community programs. The term "guarantee" means "to guarantee the repayment of loans to eligible borrowers originated, held, and serviced by a private financial agency or other lender approved by the Secretary of Agriculture."

Some guaranteed loans may be sold in the secondary market by the lender to an institution referred to as a holder. If the holder does not receive payment, Rural Development may purchase the loan. These loans are reported as direct loans by Rural Development.

I. Loans Receivable and Related Foreclosed Property, Net

Loans are accounted for as receivables after funds have been disbursed. They are carried at their principal amount outstanding (**Note 6**), and accrue interest based on the contractual interest rate. When a loan becomes nonperforming (in excess of 90 days delinquent or when borrowers enter into troubled debt

restructuring arrangements), all interest previously accrued on the loan is reversed for financial reporting purposes, and interest income on the nonperforming loan is then recognized only to the extent of the collections received. Nonperforming loans are reclassified as performing and accrue interest when they become current or less than 90 days delinquent. In addition, interest income recognition subsequent to troubled debt restructuring arrangements is generally limited to actual cash interest received from these borrowers.

Present value and Credit Reform prescribed methodology is used to value the remaining interest and principal portfolio. **Note 6** provides additional information on the methods used for the direct and guaranteed loans.

J. Property, Plant and Equipment

The land, buildings, and equipment in the current operating environment are provided by the General Services Administration, who charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties. Under Credit Reform, all equipment purchases are made through the Salaries and Expense fund.

Costs of Internal Use Software are accounted for in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of the cost of Internal Use Software whether it is commercial off-the-shelf, contractor-developed, or internally-developed which solely meets internal or operational needs.

Internal Use Software is classified as “general property, plant and equipment” as defined in SFFAS No. 6, Accounting for Property, Plant and Equipment. See **Note 7** for further information.

The threshold for personal property is \$25,000 and internal use software is \$100,000.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources. There is no certainty that appropriations will be enacted. Also, liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

L. Borrowings/Interest Payable to the Treasury

Borrowings payable to the United States (U.S.) Treasury result from the Secretary of Agriculture's authority to make and issue notes to the Secretary of the Treasury for the purpose of discharging obligations. These funds make periodic principal and interest payments to Treasury in accordance with established agreements.

M. Pension and Other Employee Benefits

Pension and other retirement benefits (primarily health care benefits) expense is recognized at the time employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

N. Resources Payable to Treasury

Rural Development's resources payable to Treasury represent the pre-credit reform funds assets that are in excess of the funds liabilities. After liquidating all the liabilities of these pre-credit reform funds, the funds are then returned to Treasury.

O. Contingencies

The Rural Development mission area is a party in various legal actions and claims through the normal course of its operations. In the opinion of management and the USDA Office of the General Counsel, the ultimate resolution of these legal actions and claims will not materially affect the financial position or results of operations (**Note 13**).

P. Unexpended Appropriations

Unexpended Appropriations include the undelivered orders and unobligated balances of the general funds and 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. At the end of the fiscal year, certain multi-year appropriations which have unobligated balances remain available for obligation in future periods. Unobligated appropriations are returned to the U.S. Treasury when their period of availability expires.

Q. Intragovernmental Financial Activities

The Rural Development mission area is an integral part of the operations of the USDA and may thus be subject to financial and managerial decisions and legislative requirements which are beyond the control of the Agency's management. Consequently, day-to-day operations may not be conducted as they would if Rural Development were a separate and independent entity.

The USDA has provided mission areas with an allocation of departmental nonreimbursed appropriated costs to include in their financial statements. These costs affect the Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Financing.

The consolidated financial statements are not intended to report the mission area's proportionate share of the Federal deficit or of public borrowing, including interest thereon. Financing for budget appropriations could derive from tax revenues or public borrowing or both; the ultimate source of this financing, whether from tax revenues or public borrowing, has not been specifically allocated to Rural Development.

The Rural Telephone Bank (RTB), which is an integral part of the Rural Development financial statements, has independent audited financial statements. The government's vested interest in the Rural Telephone Bank is commonly referred to as "Class A stock." Rural Development owns all Class A stock on behalf of the U.S. Government and any cash dividends are paid to the U. S. Treasury. On September 30, 2005, and September 30, 2004, in accordance with Bank Board resolutions 2005-1 and 2004-1, the tenth and ninth redemptions of Class A stock, in the amounts of \$19.4 million and \$20.4 million occurred, leaving balances of \$368.9 million and \$388.3 million outstanding, respectively, which has been eliminated in the consolidation. Additional information on stock owned by borrowers and third parties is reported in **Note 11**.

R. Future Considerations

Hurricanes Katrina and Rita

In August and September 2005, parts of Alabama, Florida, Louisiana, Mississippi, and Texas were devastated by Hurricanes Katrina and Rita. Residences and infrastructure in this region were destroyed, and the government identified large parts of this region as federally-declared disaster areas. Rural Development has coordinated with private partners to restore utilities, such as electric, water, and telecommunications, to rural communities in the Gulf Coast region devastated by hurricanes.

Additionally, Rural Development has placed evacuees in available housing units and provided temporary loan forbearance agreements on their mortgage

payments. A complete inventory of Rural Development-financed facilities in the areas impacted by the hurricanes is being prepared. At this time, the complete financial impact to Rural Development remains uncertain until all devastated areas are assessed.

Proposed Dissolution of the Rural Telephone Bank

The President’s Fiscal Year 2006 Budget proposes to establish the process and terms to implement dissolution of the RTB due to insufficient demand for the bank’s loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock at par value. In August 2005, the RTB Board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB, subject to there being no legal restriction on redeeming Government-owned Class A Stock. Additional information on stock owned by borrowers and third parties is reported in **Note 11**.

NOTE 2: NON-ENTITY ASSETS

Amounts are presented in millions.

	FY 2005		FY 2004
With the Public			
Cash and Other Monetary Assets	\$ 91		\$ 82
Total Non-Entity Assets	91		82
Total Entity Assets	72,511		68,139
Total Assets	\$ 72,602		\$ 68,221

See **Note 1G** for a description of Cash and Other Monetary Assets. Non-Entity Assets represent assets that are “not for use” by Rural Development.

NOTE 3: FUND BALANCE WITH TREASURY

Amounts are presented in millions

	FY 2005		FY 2004
Fund Balances:			
Revolving Funds	\$ 5,705		\$ 4,960
Appropriated Funds	5,939		6,252
Other Fund Types	(7)		(1)
Total	\$ 11,637		\$ 11,211
Status of Fund Balance with Treasury: (FBWT)			
Unobligated Balance:			
Available	\$ 1,259		\$ 1,078
Unavailable	3,918		3,265
Obligated Balance Not Yet Disbursed	6,464		6,866
Non-Budgetary FBWT	(4)		2
Total	\$ 11,637		\$ 11,211

Represents the undisbursed account balances with the U.S. Treasury as reported in the mission area's records.

Included in the Unavailable line are restricted funds which are limited in their future use and are not apportioned for current use. These amounts represent the expired authority in fixed year Grant and Program accounts (fixed years prior to FY 2005) and are only available for restoration of funds. After the fifth year of expiration, all funds are returned to the U.S. Treasury as required except those entities having extended authority. For FY's 2005 and 2004, there were approximately \$63 million and \$61 million in expired funds, respectively.

NOTE 4: CASH AND OTHER MONETARY ASSETS

Amounts are presented in millions.

	FY 2005		FY 2004
Cash	\$ 91		\$ 82
Total Cash and Other Monetary Assets	\$ 91		\$ 82

See **Note 1G** for a description of this Cash. As discussed in **Note 2**, this Cash is unavailable for Agency use.

NOTE 5: ACCOUNTS RECEIVABLE (A/R), NET

Amounts are presented in millions.

	FY 2005			
	Accounts Receivable, Gross		Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental				
A/R Revenue, Refund, Reimbursements	\$ 8		\$ 0	\$ 8
Total Intragovernmental Accounts Receivable	8		0	8
With the Public				
Audit Receivable	1		0	1
Total Accounts Receivable	\$ 9		\$ 0	\$ 9

	FY 2004			
	Accounts Receivable, Gross		Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental				
A/R Revenue, Refund, Reimbursements	\$ 9		\$ 0	\$ 9
Total Intragovernmental Accounts Receivable	9		0	9
With the Public				
Audit Receivable	0		0	0
Total Accounts Receivable	\$ 9		\$ 0	\$ 9

As of September 30, 2005 and 2004, the establishment of an allowance for uncollectible amounts was deemed unnecessary.

NOTE 6: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

Balance Sheet Review

Direct loan obligations or loan guarantee commitments made post-1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990 as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at present value for the budget. Additionally, 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 and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loans or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The net present value of loans receivable is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Direct Loans

Loans receivable and related foreclosed property, net balances at the end of FY 2005 were \$61 billion compared to \$57 billion at the end of FY 2004. Defaulted guaranteed programs were \$191 million and \$176 million at the end of FY's 2005 and 2004, respectively. Table 1 below illustrates the overall composition of the Rural Development loan portfolio by mission area and loan program for FY 2005 and FY 2004. Direct loan obligations or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value. The provision calculation is based upon the weighted-averaged subsidy rate of the financing account cohorts which have been substantially disbursed. In the case of most loan programs, substantially disbursed is 90 percent.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications, and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance moved from \$3.8 billion to \$2.6 billion during FY 2005, a decrease of \$1.2 billion. During FY 2004, the allowance decreased \$400 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2004 to FY 2005.

In FY 2004, the business and industry direct financing loans experienced the largest percentage increase in the subsidy cost allowance compared to the outstanding portfolio due to increasing non-performing loans. In FY 2005, the

direct housing loans experienced a significant percentage decrease in the allowance which primarily resulted from the current year credit reform reestimate. For the defaulted guaranteed loan programs, the business and industry program percentage of subsidy cost allowance compared to the outstanding portfolio decreased due to the repurchase of additional guaranteed loans and the allowance not updated to reflect future potential defaults.

Total direct loan subsidy expense for FY 2005 is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2005 was \$(584) million compared to \$97 million in FY 2004, a decrease of \$681 million. This decrease is largely due to the single family housing program. The credit reform subsidy model and data assumptions were changed in FY 2005 resulting in a significant downward reestimate and thereby reducing subsidy expense. Table 3 illustrates the breakdown of total subsidy expense for FY's 2005 and 2004 by program.

Direct loan volume increased from \$5.4 billion in FY 2004 to \$6.8 billion in FY 2005. Volume distribution between programs is shown in Table 4. The electric loan disbursements accounted for over 70% of the increase in FY 2005.

Table 1

Total Credit Program Receivables and Related Foreclosed Property					
<i>(in millions)</i>					
FY 2005	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	\$ 12,379	\$ 114	\$ 13	\$ (5,112)	\$ 7,394
Electric Loans	12,308	26	0	(1,599)	10,735
Telecommunications Loans	1,248	3	0	(117)	1,134
Rural Telephone Bank	274	1	0	8	283
Rural Development *	1,702	17	0	(249)	1,470
Development Loan Funds	52	0	0	(25)	27
Other Programs	3	0	0	0	3
Pre-1992 Total	27,966	161	13	(7,094)	21,046
Obligated Post-1991					
Housing Loans	12,761	55	18	(1,040)	11,794
Community Facility Loans	1,662	18	1	(74)	1,607
Electric Loans	17,857	2	0	(599)	17,260
Telecommunications Loans	2,177	3	0	13	2,193
Rural Telephone Bank	356	0	0	11	367
Water and Environmental Loans	6,639	64	0	(705)	5,998
Development Loan Funds	379	2	0	(151)	230
Business & Industry Funds	83	0	0	(76)	7
Economic Development	73	0	0	(6)	67
Post-1991 Total	41,987	144	19	(2,627)	39,523
Total Direct Loan Receivables	69,953	305	32	(9,721)	60,569
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund	3	0	0	0	3
Post-1991					
Community Facilities	9	0	0	0	9
Business and Industry	168	1	0	7	176
Housing Loans	4	0	0	0	4
Total Defaulted Guaranteed Loans	\$ 184	\$ 1	\$ 0	\$ 7	\$ 192
Total Loans Receivable and Related Foreclosed Property, Net					\$60,761

* Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and fund.

Total Credit Program Receivables and Related Foreclosed Property					
<i>(in millions)</i>					
FY 2004	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	\$ 12,949	\$ 123	\$ 17	\$ (5,558)	\$7,531
Electric Loans	13,283	27	0	(1,779)	11,531
Telecommunications Loans	1,665	9	0	(166)	1,508
Rural Telephone Bank	424	1	0	6	431
Rural Development *	2,120	21	0	(319)	1,822
Development Loan Funds	55	0	0	(27)	28
Other Programs	4	0	0	0	4
Pre-1992 Total	30,500	181	17	(7,843)	22,855
Obligated Post-1991					
Housing Loans	12,451	70	23	(1,980)	10,564
Community Facility Loans	1,424	17	2	(87)	1,356
Electric Loans	14,675	5	0	(749)	13,931
Telecommunications Loans	1,975	2	0	(8)	1,969
Rural Telephone Bank	364	0	0	4	368
Water and Environmental Loans	6,009	63	0	(760)	5,312
Development Loan Funds	359	2	0	(150)	211
Business & Industry Funds	89	0	0	(78)	11
Economic Development	75	0	0	(8)	67
Post-1991 Total	37,421	159	25	(3,816)	33,789
Total Direct Loan Receivables	67,921	340	42	(11,659)	56,644
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund	5	1	0	0	6
Post-1991					
Community Facilities	4	0	0	0	4
Business and Industry	176	0	0	(10)	166
Total Defaulted Guaranteed Loans	\$ 185	\$ 1	\$ 0	\$ (10)	\$ 176
Total Loans Receivable and Related Foreclosed Property, Net					\$56,820

* Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and fund.

Table 2

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)			
<i>(in millions)</i>			
Beginning Balance, Changes, and Ending Balance	FY 2005		FY 2004
Beginning Balance of the subsidy cost allowance	\$ 3,826		\$ 4,159
Add: Subsidy expense for direct loans disbursed during the year by component			
Interest rate differential costs	(106)		(75)
Default costs (net of recoveries)	39		38
Fees and other collections	(7)		(12)
Other subsidy costs	343		345
Total of the above subsidy expense components	269		296
Adjustments			
Fees received	20		17
Loans written off	(70)		(92)
Subsidy allowance amortization	(530)		(340)
Other	(42)		(15)
Ending balance of the subsidy cost allowance before reestimates	3,473		4,025
Add or subtract subsidy reestimates by component			
Interest rate reestimates	116		287
Technical/default reestimate	(969)		(486)
Total of the above reestimate components	(853)		(199)
Ending balance of the subsidy cost allowance	\$ 2,620		\$ 3,826

Table 3

Direct Loan Subsidy by Program and Component (in millions)									
Current Reporting Year	Subsidy Expense for New Direct Loans Disbursed					Reestimates			GRAND TOTAL
	Interest Differ- ential	Defaults	Fees and Other Colls	Other	Total	Interest Rate	Technical	Total	
Direct Loan Programs									
Housing Loans	\$(189)	\$ 34	\$(7)	\$ 359	\$ 197	\$ (43)	\$ (700)	\$(743)	\$ (546)
Community Facility Loans	13	1	0	(1)	13	(8)	0	(8)	5
Electric Loans	(23)	2	0	(11)	(32)	126	(146)	(20)	(52)
Telecommunications Loans	(1)	1	0	(1)	(1)	26	(32)	(6)	(7)
Rural Telephone Bank	0	0	0	0	0	0	(6)	(6)	(6)
Water and Environmental Loans	77	1	0	(3)	75	16	(81)	(65)	10
Development Loan Funds	15	0	0	0	15	(1)	(2)	(3)	12
Business & Industry Funds	0	0	0	0	0	1	(2)	(1)	(1)
Economic Development	2	0	0	0	2	(1)	0	(1)	1
Total Subsidy Expense, Direct Loans	\$(106)	\$ 39	\$(7)	\$ 343	\$ 269	\$ 116	\$ (969)	\$(853)	\$ (584)

Prior Reporting Year	Subsidy Expense for New Direct Loans Disbursed					Reestimates			GRAND TOTAL
	Interest Differ- ential	Defaults	Fees and Other Colls	Other	Total	Interest Rate	Technical	Total	
Direct Loan Programs									
Housing Loans	\$(161)	\$ 32	\$(12)	\$356	\$ 215	\$ 3	\$(23)	\$(20)	\$195
Community Facility Loans	14	1	0	(1)	14	(13)	(1)	(14)	0
Electric Loans	(19)	3	0	(6)	(22)	352	(455)	(103)	(125)
Telecommunications Loans	0	1	0	(1)	0	12	(40)	(28)	(28)
Rural Telephone Bank	1	0	0	0	1	(3)	(5)	(8)	(7)
Water and Environmental Loans	73	1	0	(3)	71	(67)	4	(63)	8
Development Loan Funds	13	0	0	0	13	(1)	(2)	(3)	10
Business & Industry Funds	0	0	0	0	0	5	37	42	42
Economic Development	4	0	0	0	4	(1)	(1)	(2)	2
Total Subsidy Expense, Direct Loans	\$ (75)	\$ 38	\$(12)	\$345	\$296	\$ 287	\$ (486)	\$(199)	\$ 97

Table 4

Total Amount of Direct Loans Disbursed (Post-1991)			
<i>(in millions)</i>			
Direct Loans	Current Year	Prior Year	Current Year Over (Under) Prior Year
Housing Loans	\$ 1,421	\$ 1,395	\$ 26
Community Facility Loans	323	231	92
Electric Loans	3,600	2,600	1,000
Telecommunications Loans	471	378	93
Rural Telephone Bank	96	67	29
Water and Environmental Loans	855	700	155
Development Loan Funds	34	28	6
Business & Industry Loans	2	0	2
Economic Development	12	16	(4)
Total Direct Loans Disbursed	\$ 6,814	\$ 5,415	\$ 1,399

Guaranteed Loans

Rural Development offers both direct and guaranteed loan products which are administered in coordination with conventional agricultural lenders for up to 90 percent of the principal loan amount. Guarantees for 100 percent of the principal loan are made for the electric programs. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The agency, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with the Agency. Guaranteed loans are reflected on the balance sheet in two ways: estimated losses on loan credit guarantees must be valued and carried as a liability and guaranteed loans purchased from third party holders are carried at net realizable value in loans receivable and related foreclosed property, net.

Guaranteed loans outstanding at the end of FY 2005 increased compared to the FY 2004 portfolio. At the end of FY 2005 and FY 2004, there were \$19.5 billion and \$18.7 billion in outstanding principal (face value) and \$16.9 billion and \$16.2 billion in outstanding principal (guaranteed), respectively. Table 5 shows the outstanding balances by loan program. The liability for loan guarantees and for guaranteed loans obligated prior to October 1, 1991, are reported at present value which is the same methodology used by the direct loan programs. The provision calculation is based upon future cash flows discounted at the average interest rate of the U.S. Treasury interest-bearing debt. The estimate is reported as an expense, and a corresponding accrual for estimated losses on loan guarantees is reported as a liability.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. For the post-1991

guarantees, current year subsidy expense and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. The total liability moved from \$784 million to \$926 million during FY 2005, an increase of \$142 million. Table 6a shows the loan guarantee liability while table 6b shows the liability reconciliation for post-1991 guarantees.

Total guaranteed loan subsidy expense for FY 2005 is a combination of subsidy expense for new guaranteed loans disbursed in the current year and the interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2005 was \$181 million compared to \$202 million in FY 2004, a decrease of \$21 million. This decrease was due to the business and industry guaranteed program while the housing program experienced an increase. Table 7 illustrates the breakdown of total subsidy expense for FY 2005 and FY 2004 by loan program.

Guaranteed loan volume (face value) decreased from \$4.5 billion in FY 2004 to \$3.8 billion in FY 2005. The housing loans and business and industry loans experienced the largest decrease. Volume distribution between programs is shown in Table 8.

Table 5

Loan Guarantees Outstanding						
(in millions)						
Guaranteed Loans	Pre-1992 Outstanding Principal, Face Value	Post-1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre-1992 Outstanding Principal, Guaranteed	Post-1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
FY 2005						
Housing Loans	\$ 7	\$14,293	\$14,300	\$ 6	\$12,864	\$12,870
Community Facility Loans	0	495	495	5	423	428
Electric Loans	233	221	454	233	221	454
Business and Industry Loans	35	4,191	4,226	22	3,098	3,120
Water and Environmental	0	32	32	0	26	26
Other Programs	3	0	3	3	0	3
Total Guarantees Disbursed	\$ 278	\$19,232	\$19,510	\$269	\$16,632	\$16,901
FY 2004						
Housing Loans	\$ 9	\$13,549	\$13,558	\$ 8	\$12,194	\$12,202
Community Facility Loans	0	437	437	0	375	375
Electric Loans	255	221	476	255	221	476
Business and Industry Loans	41	4,194	4,235	31	3,105	3,136
Water and Environmental	0	33	33	0	27	27
Other Programs	4	0	4	3	0	3
Total Guarantees Disbursed	\$309	\$18,434	\$18,743	\$297	\$15,922	\$16,219

Table 6a

Liability for Loan Guarantees <i>(in millions)</i>						
	FY 2005			FY 2004		
	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees						
Housing Loans	\$ 0	\$544	\$544	\$ 0	\$441	\$441
Community Facility Loans	0	12	12	0	7	7
Electric Loans	0	1	1	0	0	0
Business and Industry Loans	2	367	369	3	333	336
Water and Environmental Loans	0	0	0	0	0	0
Other Programs	0	0	0	0	0	0
Total Liabilities for Loan Guarantees	\$ 2	\$924	\$926	\$ 3	\$781	\$784

Table 6b

Schedule for Reconciling Loan Guarantee Liability <i>(in millions)</i>			
Beginning Balance, Changes, and Ending Balance	FY 2005		FY 2004
Beginning Balance of the loan guarantee liability	\$ 781		\$ 724
Add: Subsidy expense for guaranteed loans disbursed during the year by component			
Interest supplement costs	6		8
Default costs (net of recoveries)	130		145
Fees and other collections	(73)		(60)
Other subsidy costs	0		0
Total of the above subsidy expense components	63		93
Adjustments:			
Fees received	70		69
Interest supplements paid	0		0
Claim payments to lenders	(143)		(190)
Interest accumulation on the liability balance	36		13
Other	(1)		(37)
Ending balance of the loan guarantee liability before reestimates	806		672
Add or subtract subsidy reestimates by component:			
Interest rate reestimate	22		48
Technical/default reestimate	96		61
Total of the above reestimate components	118		109
Ending balance of the loan guarantee liability	\$ 924		\$ 781

Table 7

Guaranteed Loan Subsidy Expense by Program and Component <i>(in millions)</i>									
Current Reporting Year	Subsidy Expense for New Guaranteed Loans Disbursed					Reestimates			GRAND TOTAL
	Interest Supplement	Defaults	Fees and Other Colls	Other	Total	Interest Rate	Technical	Total	
Guaranteed Loan Programs									
Housing Loans	\$ 6	\$ 92	\$(63)	\$ 0	\$ 35	\$ 16	\$ 69	\$ 85	\$ 120
Community Facility Loans	0	2	(2)	0	0	2	5	7	7
Electric Loans	0	0	0	0	0	0	0	0	0
Business & Industry Funds	0	36	(8)	0	28	4	22	26	54
Total Subsidy Expense, Guaranteed Loans	\$ 6	\$ 130	\$(73)	\$ 0	\$ 63	\$ 22	\$ 96	\$ 118	\$ 181
Prior Reporting Year									
Prior Reporting Year	Subsidy Expense for New Guaranteed Loans Disbursed					Reestimates			GRAND TOTAL
	Interest Supplement	Defaults	Fees and Other Colls	Other	Total	Interest Rate	Technical	Total	
Guaranteed Loan Programs									
Housing Loans	\$ 8	\$ 90	\$(46)	\$ 0	\$ 52	\$ 40	\$ (1)	\$ 39	\$ 91
Community Facility Loans	0	0	(1)	0	(1)	0	13	13	12
Electric Loans	0	0	0	0	0	0	0	0	0
Business & Industry Funds	0	55	(13)	0	42	8	49	57	99
Total Subsidy Expense, Guaranteed Loans	\$ 8	\$ 145	(60)	\$ 0	\$ 93	\$ 48	\$ 61	\$109	\$ 202

Table 8

Guaranteed Loans Disbursed <i>(in millions)</i>				
	FY 2005		FY 2004	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Guaranteed Loans				
Housing Loans	\$ 3,036	\$ 2,733	\$ 3,420	\$ 3,078
Community Facility Loans	93	80	135	116
Electric Loans	2	2	18	18
Business and Industry Loans	704	550	924	724
Water and Environmental Loans	5	4	4	3
Total Guaranteed Loans Disbursed	\$ 3,840	\$ 3,369	\$ 4,501	\$ 3,939

Credit Program Discussion and Descriptions

Each year, Rural Development programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, Rural Development is working with state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives.

Rural housing loan and grant programs provide affordable housing and essential community facilities to rural communities. Programs also help finance new or improved housing for moderate, low, and very low-income families each year. Rural housing programs also help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

The rural business program goal is to promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

Rural utility programs help to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. These programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

Rural Development is able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

Rural Housing Programs	Rural Business-Cooperative Programs
Home Ownership Direct Loans	Business and Industry Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans
Rural Housing Site Direct Loans	Rural Utilities Programs
Farm Labor Housing Direct Loans	Water and Environmental Direct Loans
Rural Rental and Rural Cooperative Housing Loans	Water and Environmental Guaranteed Loans Electric Direct Loans
Rental Housing Guaranteed Loans	Electric Guaranteed Loans
Multi-family Housing – Nonprogram - Credit Sales	Telecommunications Direct Loans Rural Telephone Bank Direct Loans
Community Facilities Direct Loans Community Facilities Guaranteed Loans	Federal Financing Bank – Electric Guaranteed Federal Financing Bank – Telecommunications - Guaranteed
	Distance Learning and Telemedicine Direct Broadband Telecommunications Services

Table 9a

Program Characteristics – Direct			
Major Programs (Direct)	Repayment Period	Interest Rate	Unique Servicing Option
Housing Single-Family	Maximum 30-38 years/program	Current	Payment assistance – payment moratoriums – loan reamortization
Rural Rental/Rural Cooperative	1997 and prior – 50 years Subsequent – 50 year amortization with 30 year repayment and balloon	Current	Payment assistance – rental assistance to tenants
Community Facility	Maximum 40 years	4.5% to current	Workout agreements – loan reamortization
Water and Environmental	Useful life not to exceed 40 years	< or equal 5% to current	Principal payment deferrals – loan reamortization – loan transfers
Electric	Maximum 35 years	Current	Payment deferrals – loan reamortization – discounted loan prepayments Loans prior to 11/93 received interest rates from 2-5%
Telecommunications	Expected composite life (depreciated life plus 3 years)	5-7%	Payment extension
Rural Telephone Bank	Expected useful life not to exceed 35 years	Current or 5%	Payment extension
Development Loans Intermediary Relending	Maximum 30 years	1%	Payment moratoriums
Business and Industry	Maximum 7-30 years per program	Current	Loan reamortization – loan transfer

Table 9b

Program Characteristics – Guaranteed			
Major Programs (Guaranteed)	Repayment Period	Interest Rate	Unique Servicing Option
Housing Single-Family	Maximum 30 years	Lender	Maximum 90% guarantee – Lender pays 2% fee – Loans may be sold to third party
Rental Housing	Maximum 40 years	Lender	
Community Facilities	Maximum 40 years	Lender	Maximum 90% guarantee – Lender pays 1% fee – Loans may be sold to third party
Electric	Maximum 35 years	Lender	100% Guarantee
Business and Industry	Maximum 7-30 years per program	Lender	Guarantee maximum 60-80% - Lender pays 2% fee
Water and Environmental	Maximum 40 years	Lender	Rates will be negotiated between the lender and the borrower. They may be fixed or variable rates.

Discussion of Administrative Expenses, Subsidy Costs, and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses are shown in Table 10.

Table 10

Administrative Expenses (in millions)			
<i>FY 2005</i>			
Direct Loan Programs	Amount	Guaranteed Loan Programs	Amount
<i>Total</i>	\$ 220	<i>Total</i>	\$ 248
<i>FY 2004</i>			
Direct Loan Programs	Amount	Guaranteed Loan Programs	Amount
<i>Total</i>	\$ 282	<i>Total</i>	\$ 159

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990 as amended, governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as “subsidy cost”. Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on a sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and U.S. Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the Office of Management and Budget in order to do its calculations and analysis.

Rural Development’s cashflow models are tailored for specific programs based on unique program characteristics. The models utilized are housing, guaranteed, and a direct model that covers the remaining portfolio with similar characteristics. Actual budgetary reestimates lag a year behind while the approximator method is used for financial statement purposes. For example, the FY 2004 and FY 2003 actual budgetary reestimates were recorded as of September 30, 2005 and 2004, respectively. The two exceptions to the method are the single family and multi-family housing programs whose reestimates are recorded in the current fiscal year.

In FY 2005 and FY 2004, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity estimates for material programs. A key sensitivity element in the guaranteed programs is defaults.

Analysis was performed on reestimates and subsidy rates for the direct and guaranteed programs. The two direct loan programs experiencing the largest reestimates in FY 2005 were housing and water and environmental as shown in Table 3. The housing FY 2005 downward reestimates totaled \$743 million and was largely due to model and data assumption changes that were implemented during the current fiscal year. The water and environmental programs experienced decreases in the single effective rate, which is driven by the U.S. Treasury yield curve and cash flows. In addition, the actual borrower payments exceeded scheduled payments. These events resulted in downward adjustments of \$65 million for the actual and estimated amounts. For FY 2004, the electric and water and environmental programs had net reestimates of \$103 and \$63 million, respectively. The Federal Financing Bank electric loan cohort had an upward reestimate due to borrower interest rates being lower than projected; however, the prior year estimate for the same period projected a much larger reestimate. With the reversal of the prior year estimate, a downward adjustment resulted. The water and environmental program reestimates were due to the actual difference between the U.S. Treasury discount rate and the borrower interest rate varying from the original assumptions. In addition, the borrower payments for this period were more than originally anticipated.

Table 7 shows that the guaranteed housing program recorded a \$85 million reestimate increase in the current period. Guaranteed single-family housing defaults were larger than the original budget assumptions and the single effective rate decrease has the opposite effect from direct loans. For the guaranteed programs, the fund balance on deposit earns interest while the program has few U.S. Treasury borrowings. The decreased interest income reduces the funds available to pay future losses. For FY 2004, the guaranteed program reestimate amounts were within normal range.

Subsidy rates are used to compute each year's subsidy expenses as disclosed in Tables 3 and 7. The subsidy rates disclosed below pertain only to the FY 2005 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The direct loan program cohorts with the largest subsidy rate increases from FY 2004 to FY 2005 were the electric hardship and the water and waste disposal. The discount rate increased for both while the water and waste disposal cohort also had a small increase in the borrower interest rate from 4.645 to 4.662. Table 11 has the direct loan subsidy rates for FY 2005 and FY 2004. For the

guaranteed program in Table 12, the business and industry NAD Bank had the largest percentage increase from FY 2004 to FY 2005 due to the anticipated increase in defaults.

Table 11

Subsidy Rates for Direct Loans (Percentage)											
FY 2005						FY 2004					
	Interest Differential	Defaults	Fees and Other Colls.	Other	Total		Interest Differential	Defaults	Fees and Other Colls.	Other	Total
Direct Loan Programs						Direct Loan Programs					
Section 502 Single-Family Housing	-17.35	2.68	0.00	26.25	11.58	Section 502 Single-Family Housing	-19.23	2.62	0.00	25.88	9.27
Section 504 Housing Repair	26.95	2.38	0.00	-0.27	29.06	Section 504 Housing Repair	25.08	2.59	0.00	-0.21	27.46
Credit Sales Section 203 (SFH)	-21.08	1.72	0.00	3.13	-16.23	Credit Sales Section 203 (SFH)	-21.54	1.22	0.00	2.86	-17.46
Section 514 Farm Labor Housing	45.87	0.02	0.00	1.17	47.06	Section 514 Farm Labor Housing	42.74	0.03	0.00	-0.04	42.73
Section 515 Rural Rental Housing	-18.03	0.02	-0.05	65.15	47.09	Section 515 Rural Rental Housing	-20.70	0.01	0.00	63.70	43.01
Section 523 Self-Help Housing Land Development	-0.47	0.00	0.00	0.00	-0.47	Section 523 Self-Help Housing Land Development	0.13	3.22	0.00	-0.27	3.08
Section 524 Housing Site Development	-5.91	0.96	0.00	0.01	-4.94	Section 524 Housing Site Development	-4.76	3.37	0.00	1.36	-0.03
Credit Sales Section 209 (MFH)	-18.85	0.07	0.00	67.22	48.44	Credit Sales Section 209 (MFH)	-21.32	0.07	0.00	65.45	44.20
Community Facilities	4.48	0.24	0.00	-0.67	4.05	Community Facilities	-0.48	0.19	0.00	-0.42	-0.71
Distance Learning and Telemedicine	0.00	1.61	0.00	-0.19	1.42	Distance Learning and Telemedicine	0.00	0.00	0.00	0.00	0.00
Broadband	0.00	2.27	0.00	-0.14	2.13	Broadband	0.00	2.28	0.00	-0.10	2.18
Water & Waste Disposal	9.36	0.10	0.00	-0.46	9.00	Water & Waste Disposal	3.56	0.09	0.00	-0.32	3.33
Electric Hardship	3.19	0.03	0.00	-0.18	3.04	Electric Hardship	-2.27	0.03	0.00	-0.09	-2.33
Electric Municipal	1.63	0.03	0.00	-0.31	1.35	Electric Municipal	-2.26	0.03	0.00	-0.19	-2.42
FFB Electric	-1.35	0.01	0.00	-0.89	-2.23	FFB Electric	-1.35	0.01	0.00	-0.65	-1.99
Electric Treasury	0.00	0.03	0.00	-0.08	-0.05	Electric Treasury	0.00	0.03	0.00	-0.09	-0.06
Telephone Hardship	-1.25	0.02	0.00	0.02	-1.21	Telephone Hardship	-4.49	0.02	0.00	0.03	-4.44
Telephone Treasury	0.00	0.05	0.00	-0.01	0.04	Telephone Treasury	0.00	0.04	0.00	0.01	0.05
FFB Telephone	-1.03	0.12	0.00	-1.04	-1.95	FFB Telephone	-1.04	0.11	0.00	-0.92	-1.85
Rural Telephone Bank	-1.43	0.02	0.00	-0.42	-1.83	Rural Telephone Bank	-4.29	0.02	0.00	-0.05	-4.32
Intermediary Relending Program	46.64	0.00	0.00	-0.26	46.38	Intermediary Relending Program	43.27	0.00	0.00	0.00	43.27
Rural Economic Development	20.32	0.04	0.00	-1.57	18.79	Rural Economic Development	19.61	0.04	0.00	-1.04	18.61
Business and Industry	0.00	0.00	0.00	0.00	0.00	Business and Industry	0.00	0.00	0.00	0.00	0.00
Broadband 4% Loan Program	5.83	2.18	0.00	0.00	8.01	Broadband 4% Loan Program	2.79	2.15	0.00	0.00	4.94

Table 12

Subsidy Rates for Loan Guarantees (Percentage)											
FY 2005						FY 2004					
	Interest Differential	Defaults	Fees and Other Colls.	Other	Total		Interest Differential	Defaults	Fees and Other Colls.	Other	Total
Guaranteed Loan Programs						Guaranteed Loan Programs					
Section 502 Single-Family Housing	0.00	3.07	-2.00	0.00	1.07	Section 502 Single-Family Housing	0.00	3.07	-1.50	0.00	1.57
Section 502 Single-Family Housing - Refinance	0.00	0.77	-0.50	0.00	0.27	Section 502 Single-Family Housing - Refinance	0.00	0.79	-0.50	0.00	0.29
Section 538 Multi-Family Housing	10.32	0.55	-7.39	0.01	3.49	Section 538 Multi-Family Housing	9.61	0.56	-4.22	0.00	5.95
Community Facilities	0.00	0.93	-0.84	0.00	0.09	Community Facilities	0.00	0.23	-0.83	0.00	-0.60
Electric	0.00	0.06	0.00	0.00	0.06	Electric	0.00	0.06	0.00	0.00	0.06
Business and Industry	0.00	6.51	-1.47	-0.01	5.03	Business and Industry	0.00	6.33	-1.48	0.01	4.86
NAD Bank	0.00	9.91	-1.61	0.00	8.30	NAD Bank	0.00	4.53	-1.59	0.00	2.94
Local TV	0.00	0.00	0.00	0.00	0.00	Local TV	0.00	8.96	-0.50	0.00	8.46
Broadband Loans	0.00	3.93	0.00	0.00	3.93	Broadband Loans	0.00	3.90	0.00	0.00	3.90
Water and Waste	0.00	0.00	-0.90	0.00	-0.90	Water and Waste	0.00	0.00	-0.90	0.00	-0.90
Renewable Energy	0.00	6.51	-0.78	0.00	5.73	Renewable Energy	0.00	0.00	0.00	0.00	0.00

Other Disclosures

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

For FY's 2005 and 2004, rural housing program properties consisted primarily of 587 and 783 rural single-family dwellings, respectively. The average holding period for single-family housing properties in inventory for FY's 2005 and 2004 was 26 months and 24 months, respectively. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2005 and 2004 was 19,200 and 19,600, respectively. Certain properties can be leased to eligible individuals.

Commitments to Guarantee

As of September 30, 2005 and 2004, there were approximately \$1.8 billion and \$1.9 billion in commitments to extend loan guarantees, respectively.

Non-performing Loans

Rural Development's loan interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days.

Interest Credit

Approximately \$18.2 billion and \$18.3 billion of the rural housing programs unpaid loan principal as of September 30, 2005 and 2004, respectively, was receiving interest credit. If those loans receiving interest credit had interest accrued at the full-unreduced rate, interest income would have been approximately \$1.1 billion and \$1.1 billion higher for FY's 2005 and 2004, respectively. At the end of FY's 2005 and 2004, the Rural Development housing portfolio contained approximately 80 thousand and 88 thousand restructured loans with an outstanding unpaid principal balance of \$2.6 billion and \$2.5 billion, respectively.

NOTE 7: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Amounts are presented in millions.

This equipment generally represents computer hardware, software, and other office equipment used in the Rural Development mission area's network of offices. Refer to **Note 1J** for further information.

FY 2005						
Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life*	Method of Depreciation**	Capitalization Threshold
Personal Property						
Equipment	\$ 11	\$ 7	\$ 4	1-5	SL	\$ 25,000
Internal Use Software	66	12	54	2-15	SL	\$ 100,000
Internal Use Software in Development	10	0	10	2-15	SL	\$ 100,000
Total	\$ 87	\$ 19	\$ 68			

FY 2004						
Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life*	Method of Depreciation**	Capitalization Threshold
Personal Property						
Equipment	\$ 11	\$ 7	\$ 4	1-5	SL	\$ 25,000
Internal Use Software	53	7	46	2-15	SL	\$ 100,000
Internal Use Software in Development	12	0	12	2-15	SL	\$ 100,000
Total	\$ 76	\$ 14	\$ 62			

* Range of Service Life

** SL – Straight Line

NOTE 8: OTHER ASSETS

Amounts are presented in millions.

	FY 2005		FY 2004
With the Public			
Investment in Loan Asset Sale Trust*	\$ 34		\$ 35
Other	2		2
Total Other Assets	\$ 36		\$ 37

* In FY 1987, a loan asset sale was conducted as required in the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509). As a result of these sales, the Rural Development Insurance Fund (RDIF) and the Rural Housing Insurance Fund (RHIF) maintain investments in the Class C securities of the Community Program, Loan Trust, 1987A, and the Rural Housing Trust, 1987-1, respectively. These investments represent a residual security in the respective Trust and entitles Rural Development to residual cash flows resulting from loan repayments not required to pay trust security holders or to fund required reserves. Rural Development intends to retain the RDIF and RHIF Class C investments into the foreseeable future.

NOTE 9: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Amounts are presented in millions.

	FY 2005		FY 2004
Intragovernmental			
Unfunded Federal Employees Compensation Act (FECA) Liability	\$ 5		\$ 6
Total Intragovernmental	5		6
With the Public			
Federal Employee and Veteran Benefits	30		32
Unfunded Annual Leave	27		36
Total Liabilities Not Covered by Budgetary Resources	62		74
Total Liabilities Covered by Budgetary Resources	66,790		62,222
Total Liabilities	66,852		\$ 62,296

Liabilities not covered by budgetary resources represent liabilities for which Congressional action is required before budgetary resources could be provided.

NOTE 10: DEBT

Amounts are presented in millions.

	FY 2004 Beginning Balance	Net Borrowing	FY 2004 Ending Balance	Net Borrowing	FY 2005 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	27,169	1,802	28,971	2,588	31,559
Debt to the Federal Financing Bank (FFB)	22,700	(540)	22,160	646	22,806
Total Intragovernmental Debt	49,869	1,262	51,131	3,234	54,365
Agency Debt					
Held by the Public	\$ 2	\$ 0	\$ 2	\$ 0	\$ 2
Notes Payable	78	(78)	0	0	0
Total Agency Debt	80	(78)	2	0	2
Total Debt	\$ 49,949	\$ 1,184	\$ 51,133	\$ 3,234	\$ 54,367

	FY 2005	FY 2004
Classification of Debt		
Intragovernmental Debt	\$ 54,365	\$ 51,131
Debt Held by the Public	2	2
Total Debt	\$ 54,367	\$ 51,133

Borrowing from the Federal Financing Bank (FFB) is either in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with Rural Development unconditionally guaranteeing repayment. Borrowings from private investors are in the form of CBO's. CBO's outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBO's outstanding are related to Pre-Credit Reform loans and are no longer used for program financing.

FFB CBO's are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations in which an FFB-funded loan is restructured and the terms of the loan are modified. For FY's 2005 and 2004, there were approximately \$0 million and \$1 million of FFB loans repriced or refinanced, respectively.

Supplemental information associated with debt follows:

Amounts are presented in millions.

	FY 2005		FY 2004
Interest Payable, Federal			
Federal Financing Bank	\$ 1		\$ 49
U.S. Treasury	0		0
Total	1		\$ 49

These interest payable amounts associated with borrowings from the U.S. Treasury and the FFB are included in the table at the beginning of this note.

	FY 2005		FY 2004
Interest Expense, Federal			
Federal Financing Bank	\$ 1,240		\$ 1,458
U.S. Treasury	1,784		1,646
Total	\$ 3,024		\$ 3,104

NOTE 11: STOCK PAYABLE TO RTB BORROWERS

Amounts are presented in millions.

	FY 2005		FY 2004
With the Public			
B Stock Payable	\$ 481		\$ 522
C Stock Payable	909		821
Total	\$ 1,390		\$ 1,343

These liabilities are long-term in nature.

Capital Stock Class B:

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. Class B stock is nontransferable, except in connection with a transfer of ownership approved by RTB, of all or part of a RTB loan. 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. Otherwise, the borrower retains possession of the stock.

Capital Stock Class C:

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 Rural Electrification Act of 1936, as amended, or by organizations controlled by such borrowers, corporations, and public entities.

For further details regarding Class B & C Stock, see **Note 9, Capital Stock**, in the Rural Telephone Bank Financial Statements which are issued under separate cover.

For additional information regarding the dissolution of RTB, see **Note 1R, Future Considerations**.

NOTE 12: OTHER LIABILITIES

Amounts are presented in millions.

	FY 2005			
	Non-Current		Current	Total
Intragovernmental				
Employer Contributions & Payroll Taxes Payable	\$ 0		\$ 4	\$ 4
Unfunded FECA Liability	0		5	5
Liability for Deposit Funds & Suspense Accounts	0		(7)	(7)
Other	0		16	16
Payable to Treasury General Fund	0		1,273	1,273
Total Intragovernmental	0		1,291	1,291
Other Accrued Liabilities	0		0	0
Dividends Payable	0		50	50
Liability for Deposit Funds and Suspense Accounts	0		92	92
Unfunded Annual Leave	0		27	27
Other Accrued Liabilities	0		18	18
Other	19		(11)	8
Total Other Liabilities	\$ 19		\$ 1,467	\$ 1,486

	FY 2004			
	Non-Current		Current	Total
Intragovernmental				
Employer Contributions & Payroll Taxes Payable	\$ 0		\$ 2	\$ 2
Unfunded FECA Liability	0		6	6
Liability for Deposit Funds & Suspense Accounts	0		(2)	(2)
Other	0		7	7
Payable to Treasury General Fund	0		356	356
Total Intragovernmental	0		369	369
Other Accrued Liabilities	0		15	15
Dividends Payable	0		49	49
Liability for Deposit Funds and Suspense Accounts	0		85	85
Unfunded Annual Leave	0		36	36
Contingent Liability	0		0	0
Other	18		(11)	7
Total Other Liabilities	\$ 18		\$ 543	\$ 561

These liabilities are covered by Budgetary Resources.

NOTE 13: COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Rural Development has commitments under cancelable leases for office space. The majority of buildings in which Rural Development operates are leased by the General Services Administration (GSA). GSA charges rent which is intended to approximate commercial rental rates.

As of September 30, 2005 and 2004, there were approximately \$1.8 billion and \$1.9 billion in commitments to extend loan guarantees, respectively.

As of September 30, 2005 and 2004, there were no obligations due to cancelled appropriations for which there is a contractual commitment for payment.

CONTINGENCIES

The Rural Development mission area is subject to various claims and contingencies related to lawsuits. No amounts have been accrued in the Financial Statements for claims where the amount or probability of judgment is uncertain.

Litigation is pending in six cases for prepayment of Section 515 multi-family housing loans. A determination has been made by the Office of General Counsel that it is "probable" that an unfavorable outcome will result. At this time, no amount or range of potential loss can be estimated.

Litigation is also pending due to a discrimination complaint filed under the Equal Credit Opportunity Act and the Administrative Procedures Act. A determination has been made by the Office of General Counsel that it is "reasonably possible" that an unfavorable outcome is likely and the potential loss amount cannot be estimated at this time.

There were no cases in which payment has been deemed probable and for which the amount of potential liability has been estimated. Consequently, nothing has been accrued in the Financial Statements as of September 30, 2005, and 2004, respectively.

Although overall the existing multiple family housing portfolio is in fair to good condition, Rural Development National Office officials have determined that adequate funds have not been accrued to address future maintenance costs. A

conservative estimate is that approximately 4,250 properties and 85,000 apartment units, will physically deteriorate to the point where safety and sanitation will necessitate a general modernization program to maintain their marketability and ultimately compete for tenants. The cost is expected to reach into the hundreds of millions of dollars.

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in millions.

	FY 2005						Consolidated Total
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Agricultural Research & Services		
Intragovernmental Gross Costs:							
Borrowing Interest Expense	738	0	548	1,738	0		3,024
Other	175	19	75	21	0		290
Total Intragovernmental Gross Cost	913	19	623	1,759	0		3,314
Less: Intragovernmental Earned Revenue (Note 15)	126	1	160	129	0		416
Intragovernmental Net Costs	787	18	463	1,630	0		2,898
Gross Costs with the Public:							
Grants	0	902	908	0	0		1,810
Loan Cost Subsidies	(434)	7	85	(61)	0		(403)
Other	181	32	230	(120)	0		323
Total Gross Costs with the Public	(253)	941	1,223	(181)	0		1,730
Less: Earned Revenues from the Public (Note 15)	1,499	0	648	1,773	0		3,920
Net Costs with the Public	(1,752)	941	575	(1,954)	0		(2,190)
Net Cost Of Operations	(965)	959	1,038	(324)	0		708

	FY 2004						
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Agricultural Research & Services	Consolidated Total	
Intragovernmental Gross Costs:							
Borrowing Interest Expense	857	0	562	1,685	0	3,104	
Other	143	14	61	17	0	235	
Total Intragovernmental Gross Cost	1,000	14	623	1,702	0	3,339	
Less: Intragovernmental Earned Revenue (Note 15)	129	1	146	73	0	349	
Intragovernmental Net Costs	871	13	477	1,629	0	2,990	
Gross Costs with the Public:							
Grants	0	875	815	0	2	1,692	
Loan Cost Subsidies	275	10	168	(153)	0	300	
Other	268	29	186	(68)	0	415	
Total Gross Costs with the Public	543	914	1,169	(221)	2	2,407	
Less: Earned Revenues from the Public (Note 15)	1,279	0	625	1,716	0	3,620	
Net Costs with the Public	(736)	914	544	(1,937)	2	(1,213)	
Net Cost Of Operations	\$ 135	\$ 927	1,021	\$ (308)	2	\$ 1,777	

OTHER DISCLOSURES

FUNCTION LEVEL TITLE	SUBFUNCTION LEVEL TITLE	BUDGET SUBFUNCTION CODE	ACTIVITY INCLUDED IN FINANCIAL STATEMENTS (where applicable)	LOAN/GRANT PROGRAMS INCLUDED IN BUDGET SUBFUNCTION CODE
Commerce & Housing	Mortgage Credit	371	Rural Housing Programs	Single Family Housing (Direct & Guaranteed) Multi-Family Housing (Direct & Guaranteed)
Income Security	Housing Assistance	604	Rural Housing Programs	Domestic Farm Labor Grants Very Low-Income Housing Repair Grants Construction Defects Rental Assistance Program Other Housing Grants
Community & Regional Development	Area & Regional Development	452	Rural Housing Programs Rural Business Programs Rural Utilities Programs	Rural Community Facility (Direct & Guaranteed) Rural Business & Industry (Direct & Guaranteed) Rural Economic Development (Loans & Grants) Rural Development Loan Funds Rural Water & Environmental (Direct & Guaranteed) Rural Telephone Bank Distance Learning & Telemedicine
Energy	Energy Supply & Conservation	271 272	Rural Utilities Programs	Rural Electric & Telecommunications
Agriculture	Agricultural Research & Services	352	Rural Business Programs	Conservation Loan
National Resources	Water Resources Conservation & Land Management Pollution Control & Abatement	301 302 304	Other	Hazardous Waste Disposal

USDA and the individual agencies preparing their own Financial Statements are required to prepare the Statement of Net Cost at the subfunction level. The Statement of Net Cost, as prepared by the U.S. Treasury, shows these activities at their function level.

NOTE 15: EARNED REVENUES

Amounts are presented in millions.

	FY 2005					Total
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation		
Intragovernmental						
Interest Revenue from Treasury	117	0	156	128		401
Other	9	1	4	1		15
Total	126	1	160	129		416
With the Public						
Interest Revenue	1,482	0	641	1,773		3,896
Other	17	0	7	0		24
Total	1,499	0	648	1,773		3,920
Total Earned Revenues	1,625	1	808	1,902		4,336

	FY 2004					Total
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation		
Intragovernmental						
Interest Revenue from Treasury	\$ 121	\$ 0	\$ 143	\$ 72		\$ 336
Other	8	1	3	1		13
Total	129	1	146	73		349
With the Public						
Interest Revenue	\$ 1,256	\$ 0	\$ 618	\$ 1,716		\$ 3,590
Other	23	0	7	0		30
Total	\$ 1,279	\$ 0	\$ 625	\$ 1,716		\$ 3,620
Total Earned Revenues	\$ 1,408	\$ 1	\$ 771	\$ 1,789		\$ 3,969

Other Disclosures

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 U.S. Treasury securities within 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 11** and **Note 6**.

Exchange Transactions With Non-Federal Sources

When a new direct loan program becomes a reality, the applicable public law normally addresses interest rates to be charged to borrowers in some fashion. Public laws can be specific, state a minimum and/or maximum rate, or be in general terms. The following general discussion about borrower interest rates is in relation to loan programs within each of our mission areas.

Rural Housing Program: The two largest loan programs (single-family housing and rural rental and cooperative housing) have a statutory basis for rates that is not less than the current average market yield on outstanding U.S. marketable obligations of comparable maturities. This rate has been determined to be the 25-year U.S. Treasury rate.

Rural Business-Cooperative Program: The main loan program (business and industry) has a statutory basis for a rate which is not less than the U.S. Treasury rate determined by considering 1) current average market yield on outstanding U.S. marketable obligations of comparable maturities, 2) comparable private market rates and, 3) Secretary of Agriculture's insurance plus an additional charge to cover losses.

Rural Utilities Program: Water and Environmental loans have a statutory basis for a rate which has a range between less than or equal to 5 percent to not greater than the current market yield for outstanding municipal obligations of comparable maturities adjusted to the nearest 1/8 of 1 percent. Telephone cost-of-money loans have a statutory basis for a rate equal to the current cost-of-money to the Federal Government for loans of a similar maturity, but not to exceed 7 percent. Electric municipal rate loans have a statutory basis for a rate equal to the current market yield on outstanding municipal obligations, subject to a 7 percent maximum, with remaining periods to maturity similar to the term selected by the applicant. Telephone and Electric hardship rate loans have a statutory basis for a rate of 5 percent. The rate on Telephone and Electric loans purchased by the Federal Financing Bank shall be the rate applicable to similar loans being made or purchased by the Federal Financing Bank.

Exchange Transactions with Federal Sources

Rural Development serves as a temporary source of supervised credit until borrowers are able to qualify for private sector resources. As the lender of last resort, Rural Development is unable to recoup all the costs associated with its loan making and loan servicing activities. The main reason is that the costs

associated with borrowings from U.S. Treasury to make loans exceed the interest income received from borrowers plus any interest income earned from the U.S. Treasury.

NOTE 16: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Amounts are presented in millions.

	FY 2005			
	Direct		Reimbursable	Total
Category A	\$ 12,213		\$ 0	\$ 12,213
Category B	2,998		520	3,518
Total Obligations Incurred	\$ 15,211		\$ 520	\$ 15,731

	FY 2004			
	Direct		Reimbursable	Total
Category A	\$ 10,466		\$ 0	\$ 10,466
Category B	5,295		509	5,804
Total Obligations Incurred	\$ 15,761		\$ 509	\$ 16,270

NOTE 17: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2005 and 2004, the amount of available borrowing authority was \$18.4 billion and \$17.0 billion, respectively.

NOTE 18: TERMS OF BORROWING AUTHORITY USED

Requirements for repayments of borrowings: Borrowings are repaid on Standard Form (SF) 1151, Nonexpenditure Transfer Authorization, as maturity dates become due. For liquidating accounts, maturity dates are one working day prior to the anniversary date of the note. For financing accounts, maturity dates are 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.

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 U.S. Treasury borrowings.

Other terms of borrowing authority used: In general, borrowings are for periods of between one year and approximately fifty years depending upon the loan program/cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the U.S. 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 U.S. Treasury rate in effect during the period of loan disbursements. Some individual loans are disbursed over several quarters or years. Consequently, several interest rates can be applicable to an individual loan. Thus, a single weighted average interest rate is maintained for each cohort and is adjusted each year until the disbursements for the cohort have been made. Each year, the current average annual interest rate is weighted by current year disbursements and merged with the prior years weighted average to calculate a new weighted average.

Prepayments can be made on U.S. Treasury borrowings in the liquidating and financing accounts without penalty; however, they cannot be made on Federal Financing Bank Certificates of Beneficial Ownership in the liquidating accounts without penalty.

NOTE 19: PERMANENT INDEFINITE APPROPRIATIONS

Existence, purpose, and availability of permanent indefinite appropriations: Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability for apportionment, and the program accounts for reestimates related to upward adjustments of subsidy. 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 in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as “cash needs” for the liquidating accounts, and for the program accounts by information about the actual performance of a cohort or estimated changes in future cash flows of the cohort.

The period of availability for these appropriations are as follows: (1) Annual authority is available for obligation only during a specified year and expires at the end of that time. (2) Multi-year authority is available for obligation for a specified period of time in excess of one fiscal year. (3) 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 “cancelled”. Thereafter, the authority is not available for any purpose.

NOTE 20: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

The availability/use of budget authority (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 purpose authorized in appropriation acts or other laws.
- **Amount** – Obligations and expenditures may not exceed the amounts established by 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 (**Note 19**).

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

NOTE 21: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2007 Budget of the United States Government, with the Actual Column completed for FY 2005, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2006. The Budget will be available from the Government Printing Office.

The 2006 Budget of the United States Government, with the Actual Columns completed for FY 2004, was published in February 2005 and reconciled to the SBR. Reconciling items were noted as described in the table below. The reconciling items represent:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President's Budget "actual" column per OMB Circular No. A-11 but is included in the SBR.
- Shared accounts, which represent designated fund account symbols by the USDA, are used to receive and subsequently obligate and disburse. The allotments are treated as nonexpenditure transactions. These accounts retain the fund account symbol identified with the original appropriation from which monies were advanced.
- Amounts due to rounding.
- A reporting error was noted and adjustments were made to the FACTS II submission subsequent to the Statement of Budgetary Resources being published. The error is a result of activity being incorrectly recorded to Recoveries of Prior Year Obligations and Obligations Incurred when interest rate changes were processed due to market rate fluctuations.

Reconciliation Between FY 2004 Statement of Budgetary Resources and the President's Budget

Amounts are presented in millions.

Applicable Line From SBR	Amount from SBR	Applicable Line From President's Budget	Amount From President's Budget	Legitimate Differences	Reporting Errors
Total Budgetary Resources (line 7)	\$21,836	Total budgetary resources available for obligation	\$21,379	\$218 E - 206 R - 9 S - 3	A = \$239
Total Status of Budgetary Resources (line 11)	\$21,836	Total new obligations, Unobligated balance expiring/withdrawn, Unobligated balance carried forward, end of year, and Unobligated balance available, end of year	\$21,384	\$213 E - 206 R - 4 S - 3	A = \$239
Outlays (line 15)	\$ 2,588	Outlays	\$ 2,583	\$ 5 R - 2 S - 3	None

LEGEND

A = Adjustment for FACTS II submission
E = Expired Budgetary Authority

R = Rounding
S = Shared Accounts

NOTE 22: EXPLANATION OF RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS ON THE STATEMENT OF FINANCING

	FY 2005	FY 2004
Current Year Liabilities Not Covered by Budgetary Resources, as Disclosed in Note 9	\$ 62	\$ 74
Prior Year Liabilities Not Covered by Budgetary Resources	(74)	(74)
Increase (Decrease) in Liabilities Not Covered by Budgetary Resources	(12)	0
Upward (Downward) Reestimates of Credit Subsidy Expense	(782)	(124)
Increase in Exchange Revenue Receivable from the Public	1	0
Other	(21)	(3)
Components Requiring or Generating Resources in Future Periods, as Reported on the Statement of Financing	\$ (814)	\$ (127)

For FY 2005, the \$(21) million amount reported as “Other” above is different from the \$(33) million amount reported as “Other” on the Statement of Financing due to the inclusion of \$(12) million amount reported above on the line titled, Increase (Decrease) in Liabilities Not Covered By Budgetary Resources, in the overall computation.

For FY 2004, the \$(3) million amount reported as “Other” above is different from the amount reported as “Other” on the Statement of Financing due to the inclusion of \$3 million applicable to the increase in annual leave liability on the Statement of Financing.

The upward (downward) reestimates of credit subsidy expense are recognized expenses even though budgetary resources will be provided in a subsequent period. These credit subsidy reestimates are reported as liabilities covered by budgetary resources since the budget authority to fund the reestimates is permanent and indefinite and no further Congressional action is required to provide the resources.

NOTE 23: DESCRIPTION OF TRANSFERS THAT APPEAR AS A RECONCILING ITEM ON THE STATEMENT OF FINANCING

The Appalachian Regional Commission (ARC) invests in the basic building blocks of sustainable economic development in the 406 counties (13-State Region) which comprise the Appalachian Region. ARC has allocated funds to Rural Development to provide accounting services. As of September 30, 2005 and 2004, the amount of this reconciling item is \$15.0 million and \$14.4 million, respectively.

The Economic Development Administration's (EDA) Assistance Program provides grants for public works facilities, other financial assistance, and planning and coordination assistance needed to alleviate conditions of substantial and persistent unemployment and underemployment in economically distressed areas and regions. EDA has allocated funds to Rural Development to provide accounting services. As of September 30, 2005 and 2004, the amount of this reconciling item is \$3.6 million and \$6.4 million, respectively.

NOTE 24: INCIDENTAL CUSTODIAL COLLECTIONS

Amounts are presented in millions.

	Custodial Activity		
	FY 2005		FY 2004
Sources of Collections			
Natural Resources Conservation Service Loan Collections	\$ 1		\$ 2
Total Revenue Collected	\$ 1		\$ 2
Disposition of Collections			
Amount Transferred to Treasury Receipt Accounts	\$ 1		\$ 2
Total Disposition of Revenue	\$ 1		\$ 2
Net Custodial Activity	\$ 0		\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Program	Rural Community Advancement Program	Rural Community Advancement Program	Rural Community Advancement Program
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 894	\$ 0	\$ 1,159	\$ 0
Borrowing Authority	0	1,642	0	1,587
Net Transfers	0	0	0	0
Unobligated Balance:				
Beginning of Period	249	510	249	385
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	304	992	474	999
Receivable from Federal Sources	0	0	0	(3)
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	13	0	(65)
Recoveries of Prior Year Obligations	44	145	117	237
Permanently Not Available	(352)	(464)	(688)	(364)
Total Budgetary Resources	\$ 1,139	\$ 2,838	\$ 1,311	\$ 2,776
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 916	\$ 2,318	\$ 1,062	\$ 2,266
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	136	520	168	510
Unobligated Balance Not Available	87	0	81	0
Total Status of Budgetary Resources	\$ 1,139	\$ 2,838	\$ 1,311	\$ 2,776
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	2,735	3,368	2,835	2,914
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	916	2,318	1,062	2,266
Less:				
Recoveries of Prior Year Obligations	44	145	117	237
Change from Federal Sources	0	13	0	(68)
Obligated Balance, Net, End of Period:				
Accounts Receivable	0	0	0	0
Unfilled Customer Orders from Federal Sources	0	(254)	0	(241)
Undelivered Orders	2,582	3,943	2,697	3,609
Accounts Payable	28	0	38	0
Total Obligated Balance, Net, End of Period:	2,610	3,689	2,735	3,368
Disbursements	997	1,839	1,045	1,643
Collections and Advances Received	(304)	(992)	(474)	(999)
Outlays	693	847	571	644
Less: Offsetting Receipts	92	0	140	0
Net Outlays	\$ 601	\$ 847	\$ 431	\$ 644

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Fund	Rural Electrification/ Telecommunication Fund	Rural Electrification/ Telecommunication Fund	Rural Electrification/ Telecommunication Fund
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 280	\$ 0	\$ 391	\$ 0
Borrowing Authority	0	4,991	2	4,444
Net Transfers	19	0	20	0
Unobligated Balance:				
Beginning of Period	1,745	215	375	10
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	2,208	1,914	3,060	1,621
Receivable from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders Without Advance from Federal Sources	0	(8)	0	(12)
Recoveries of Prior Year Obligations Permanently Not Available	97 (955)	119 (920)	20 (804)	125 (675)
Total Budgetary Resources	\$ 3,394	\$ 6,311	\$ 3,064	\$ 5,513
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 1,081	\$ 6,037	\$ 1,319	\$ 5,298
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	0	274	88	215
Unobligated Balance Not Available	2,313	0	1,657	0
Total Status of Budgetary Resources	\$ 3,394	\$ 6,311	\$ 3,064	\$ 5,513
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	318	10,848	384	9,501
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	1,081	6,037	1,319	5,298
Less:				
Recoveries of Prior Year Obligations	97	119	20	125
Change from Federal Sources	0	(8)	0	(12)
Obligated Balance, Net, End of Period:				
Accounts Receivable	0	0	0	0
Unfilled Customer Orders from Federal Sources	0	(43)	0	(50)
Undelivered Orders	147	11,626	247	10,898
Accounts Payable	89	3	71	0
Total Obligated Balance, Net, End of Period:	236	11,586	318	10,848
Disbursements				
Disbursements	1,066	5,188	1,365	3,838
Collections and Advances Received	(2,208)	(1,914)	(3,060)	(1,621)
Outlays	(1,142)	3,274	(1,695)	2,217
Less: Offsetting Receipts	151	0	62	0
Net Outlays	\$ (1,293)	\$ 3,274	\$ (1,757)	\$ 2,217

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Programs Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 5	\$ 0	\$ 4	\$ 0
Borrowing Authority	0	235	0	216
Net Transfers	(19)	0	(20)	0
Unobligated Balance:				
Beginning of Period	1,291	30	1,202	1
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	244	141	203	61
Receivable from Federal Sources	0	0	(50)	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	0	0	(2)
Recoveries of Prior Year Obligations	15	69	16	76
Permanently Not Available	(9)	(179)	(11)	(110)
Total Budgetary Resources	\$ 1,527	\$ 296	\$ 1,344	\$ 242
Status of Budgetary Resources				
Obligations Incurred:				
Direct	55	214	\$ 53	\$ 212
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	0	19	0	0
Unobligated Balance Not Available	1,472	63	1,291	30
Total Status of Budgetary Resources	\$ 1,527	\$ 296	\$ 1,344	\$ 242
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	106	1,205	53	1,169
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	55	214	53	212
Less:				
Recoveries of Prior Year Obligations	15	69	16	76
Change from Federal Sources	0	0	(50)	(2)
Obligated Balance, Net, End of Period:				
Accounts Receivable	(6)	0	(6)	0
Unfilled Customer Orders from Federal Sources	0	(18)	0	(18)
Undelivered Orders	46	1,235	64	1,223
Accounts Payable	50	0	48	0
Total Obligated Balance, Net, End of Period:	90	1,217	106	1,205
Disbursements				
Collections and Advances Received	(244)	(141)	(203)	(61)
Outlays	(188)	(8)	(169)	41
Less: Offsetting Receipts	10	0	11	0
Net Outlays	\$ (198)	\$ (8)	\$ (180)	\$ 41

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 781	\$ 0	\$ 858	\$ 0
Borrowing Authority	0	1,442	0	1,557
Net Transfers	(6)	0	0	0
Unobligated Balance:				
Beginning of Period	212	1,041	261	980
Net Transfers, Actual	0	0	4	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,404	2,151	1,577	2,194
Receivable from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders Without Advance from Federal Sources	0	(2)	0	(31)
Recoveries of Prior Year Obligations Permanently Not Available	19 (1,405)	101 (1,154)	26 (1,365)	91 (1,152)
Total Budgetary Resources	\$ 1,005	\$ 3,579	\$ 1,361	\$ 3,639
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 864	\$ 2,479	\$ 1,149	\$ 2,598
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	8	644	13	690
Unobligated Balance Not Available	133	456	199	351
Total Status of Budgetary Resources	\$ 1,005	\$ 3,579	\$ 1,361	\$ 3,639
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	265	703	359	560
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	864	2,479	1,149	2,598
Less:				
Recoveries of Prior Year Obligations	19	101	26	91
Change from Federal Sources	0	(2)	0	(31)
Obligated Balance, Net, End of Period:				
Accounts Receivable	0	0	0	0
Unfilled Customer Orders from Federal Sources	0	(238)	0	(240)
Undelivered Orders	242	800	230	943
Accounts Payable	0	8	35	0
Total Obligated Balance, Net, End of Period:	242	570	265	703
Disbursements				
Disbursements	868	2,513	1,217	2,395
Collections and Advances Received	(1,404)	(2,151)	(1,577)	(2,194)
Outlays	536	362	(360)	201
Less: Offsetting Receipts	278	0	167	0
Net Outlays	\$ (814)	\$ 362	\$ (527)	\$ 201

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 654	\$ 0	\$ 647	\$ 0
Borrowing Authority	0	0	0	0
Net Transfers	6	0	0	0
Unobligated Balance:				
Beginning of Period	2	0	2	0
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	0	0	0
Receivable from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	0	0	0
Recoveries of Prior Year Obligations	0	0	1	0
Permanently Not Available	(68)	0	(67)	0
Total Budgetary Resources	\$ 594	\$ 0	\$ 583	\$ 0
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 593	\$ 0	\$ 581	\$ 0
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	0	0	0	0
Unobligated Balance Not Available	1	0	2	0
Total Status of Budgetary Resources	\$ 594	\$ 0	\$ 583	\$ 0
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	2,595	0	2,793	0
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	593	0	581	0
Less:				
Recoveries of Prior Year Obligations	0	0	1	0
Change from Federal Sources	0	0	0	0
Obligated Balance, Net, End of Period:				
Accounts Receivable	0	0	0	0
Unfilled Customer Orders from Federal Sources	0	0	0	0
Undelivered Orders	2,314	0	2,531	0
Accounts Payable	51	0	64	0
Total Obligated Balance, Net, End of Period:	2,365	0	2,595	0
Disbursements	823	0	778	0
Collections and Advances Received	0	0	0	0
Outlays	823	0	778	0
Less: Offsetting Receipts	0	0	0	0
Net Outlays	\$ 823	\$ 0	\$ 778	\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 126	\$ 0	\$ 117	\$ 0
Borrowing Authority	0	3	0	0
Net Transfers	0	0	0	0
Unobligated Balance:				
Beginning of Period	29	0	24	0
Net Transfers, Actual	0	0	(4)	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	0	0	0
Receivable from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders Without Advance from Federal Sources	0	3	0	0
Recoveries of Prior Year Obligations	5	0	6	0
Permanently Not Available	0	0	(1)	0
Total Budgetary Resources	\$ 160	\$ 6	\$ 142	\$ 0
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 144	\$ 6	\$ 113	\$ 0
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	15	0	29	0
Unobligated Balance Not Available	1	0	0	0
Total Status of Budgetary Resources	\$ 160	\$ 6	\$ 142	\$ 0
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	184	0	170	0
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	144	6	113	0
Less:				
Recoveries of Prior Year Obligations	5	0	6	0
Change from Federal Sources	0	3	0	0
Obligated Balance, Net, End of Period:				
Accounts Receivable	0	0	0	0
Unfilled Customer Orders from Federal Sources	0	(3)	0	0
Undelivered Orders	219	6	182	0
Accounts Payable	3	0	2	0
Total Obligated Balance, Net, End of Period:	222	3	184	0
Disbursements				
Disbursements	101	0	93	0
Collections and Advances Received	0	0	0	0
Outlays	101	0	93	0
Less: Offsetting Receipts	0	0	0	0
Net Outlays	\$ 101	\$ 0	\$ 93	\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	Salaries & Expense	Salaries & Expense	Salaries & Expense
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 149	\$ 0	\$ 144	\$ 0
Borrowing Authority	0	0	0	0
Net Transfers	0	0	0	0
Unobligated Balance:				
Beginning of Period	36	0	37	0
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	507	0	501	0
Receivable from Federal Sources	2	0	(1)	0
Change in Unfilled Customer Orders Without Advance from Federal Sources	0	0	0	0
Recoveries of Prior Year Obligations	82	0	117	0
Permanently Not Available	(19)	0	(13)	0
Total Budgetary Resources	\$ 757	\$ 0	\$ 785	\$ 0
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 213	\$ 0	\$ 240	\$ 0
Reimbursables	520	0	509	0
Unobligated Balance:				
Apportioned	2	0	(5)	0
Unobligated Balance Not Available	22	0	41	0
Total Status of Budgetary Resources	\$ 757	\$ 0	\$ 785	\$ 0
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	131	0	131	0
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	733	0	749	0
Less:				
Recoveries of Prior Year Obligations	82	0	117	0
Change from Federal Sources	2	0	(1)	0
Obligated Balance, Net, End of Period:				
Accounts Receivable	(2)	0	0	0
Unfilled Customer Orders from Federal Sources	0	0	0	0
Undelivered Orders	96	0	106	0
Accounts Payable	38	0	25	0
Total Obligated Balance, Net, End of Period:	132	0	131	0
Disbursements	648	0	633	0
Collections and Advances Received	(507)	0	(501)	0
Outlays	141	0	132	0
Less: Offsetting Receipts	0	0	0	0
Net Outlays	\$ 141	\$ 0	\$ 132	\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 108	\$ 0	\$ 137	\$ 0
Borrowing Authority	0	162	0	676
Net Transfers	1	0	3	0
Unobligated Balance:				
Beginning of Period	187	19	148	15
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	71	74	37	68
Receivable from Federal Sources	17	0	36	(1)
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	(1)	0	14
Recoveries of Prior Year Obligations	11	53	6	14
Permanently Not Available	(8)	(91)	(32)	(45)
Total Budgetary Resources	\$ 387	\$ 216	\$ 335	\$ 741
Status of Budgetary Resources				
Obligations Incurred:				
Direct	83	208	\$ 148	\$ 722
Reimbursables	0	0	0	0
Unobligated Balance:				
Apportioned	201	0	103	19
Unobligated Balance Not Available	103	8	84	0
Total Status of Budgetary Resources	\$ 387	\$ 216	\$ 335	\$ 741
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	192	805	191	245
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	83	208	148	722
Less:				
Recoveries of Prior Year Obligations	11	53	6	14
Change from Federal Sources	17	(1)	36	13
Obligated Balance, Net, End of Period:				
Accounts Receivable	(89)	0	(72)	0
Unfilled Customer Orders from Federal Sources	0	(68)	0	(69)
Undelivered Orders	205	875	262	874
Accounts Payable	9	0	2	0
Total Obligated Balance, Net, End of Period:	\$ 125	\$ 807	192	805
Disbursements	122	154	105	135
Collections and Advances Received	(71)	(74)	(37)	(68)
Outlays	51	80	68	67
Less: Offsetting Receipts	7	0	7	0
Net Outlays	\$ 44	\$ 80	\$ 61	\$ 67

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in millions

	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts	2004 Budgetary	2004 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 2,997	\$ 0	\$ 3,457	\$ 0
Borrowing Authority	0	8,475	2	8,480
Net Transfers	1	0	3	0
Unobligated Balance:				
Beginning of Period	3,751	1,815	2,298	1,391
Net Transfers, Actual	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	4,738	5,272	5,852	4,943
Receivable from Federal Sources	19	0	(15)	(4)
Change in Unfilled Customer Orders Without Advance from Federal Sources	0	5	0	(96)
Recoveries of Prior Year Obligations Permanently Not Available	273 (2,816)	487 (2,808)	309 (2,981)	543 (2,346)
Total Budgetary Resources	\$ 8,963	\$ 13,246	\$ 8,925	\$ 12,911
Status of Budgetary Resources				
Obligations Incurred:				
Direct	\$ 3,949	\$ 11,262	\$ 4,665	\$ 11,096
Reimbursables	520	0	509	0
Unobligated Balance:				
Apportioned	362	1,457	396	1,434
Unobligated Balance Not Available	4,132	527	3,355	381
Total Status of Budgetary Resources	\$ 8,963	\$ 13,246	\$ 8,925	\$ 12,911
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	6,526	16,929	6,916	14,389
Obligated Balance Transferred, Net	0	0	0	0
Obligations Incurred	4,469	11,262	5,174	11,096
Less:				
Recoveries of Prior Year Obligations	273	487	309	543
Change from Federal Sources	19	5	(15)	(100)
Obligated Balance, Net, End of Period:				
Accounts Receivable	(97)	0	(78)	0
Unfilled Customer Orders from Federal Sources	0	(624)	0	(618)
Undelivered Orders	5,851	18,485	6,319	17,547
Accounts Payable	268	11	285	0
Total Obligated Balance, Net, End of Period	6,022	17,872	6,526	16,929
Disbursements	4,681	9,827	5,270	8,113
Collections and Advances Received	(4,738)	(5,272)	(5,852)	(4,943)
Outlays	(57)	4,555	(582)	3,170
Less: Offsetting Receipts	538	0	387	0
Net Outlays	\$ (595)	\$ 4,555	\$ (969)	\$ 3,170