U.S. Department of Agriculture
Office of Inspector General
Midwest Region
Audit Report

Rural Development
Consolidated Comparative
Financial Statements
For Fiscal Years 2001 And 2000

Report No.
85401-6-Ch
FEBRUARY 2002

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: February 26, 2002

REPLY TO
ATTN OF: 85401-6-Ch

SUBJECT: Rural Development's Consolidated Comparative Financial Statements for Fiscal Years 2001 and 2000

TO: Michael E. Neruda
Deputy Under Secretary
for Rural Development

ATTN: Sherie Hinton Henry
Director
Financial Management Division

This report presents the results of our audit of the Rural Development consolidated comparative financial statements for fiscal years (FY) ended September 30, 2001, and 2000. It also contains the results of our assessment of Rural Development's internal control structure and compliance with laws and regulations. Our report dated February 1, 2001, on Rural Development's FY 2000 consolidated financial statements expressed a qualified opinion due to its inability to reasonably estimate subsidy costs for its loan programs.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on the recommendations without management decision. Please note that the regulation requires a management decision 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.

/s/
JOYCE N. FLEISCHMAN
Acting Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED COMPARATIVE FINANCIAL STATEMENTS
FOR FISCAL YEARS 2001 AND 2000
AUDIT REPORT NO. 85401-6-Ch

PURPOSE

Our audit objectives were to determine if (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 structure provides reasonable assurance that the internal control objectives 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.

RESULTS IN BRIEF

In our opinion, Rural Development's fiscal year 2001 consolidated financial statements, including the accompanying notes, present fairly in all material respects, in conformity with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2001; as well as net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended. This is our first unqualified opinion since fiscal year 1993. This year, with assistance from the Department's Credit Reform Task Force, Rural Development overcame its previous inability to reasonably estimate the cost of its outstanding direct loan programs. We expressed a qualified opinion on Rural Development's fiscal year 2000 financial statements due to its inability to reasonably estimate subsidy costs for its loan programs.

Our report on Rural Development's internal control structure discusses weaknesses, several of which are material, that warrant corrective action. Our report on compliance with laws and regulations also discusses issues that require corrective action. The following highlight the issues presented in these reports.

- While Rural Development has significantly improved its process for estimating subsidy costs, it still needs to enhance some processes and procedures used in estimating and reestimating the costs of loans and loan guarantees and in determining loan allowances and contingent losses.

- Due to weaknesses in information technology controls, Rural Development is highly vulnerable to intrusion from within and externally; and its computer system, data, and programs are at risk for misuse.

- Rural Development was unable to readily identify differences between several loan accounting systems and its general ledger.

- While Rural Development's Core financial system substantially meets Joint Financial Management Improvement Program requirements, several issues warrant attention. These include the lack of an automated cost accounting system and the RUS legacy systems noncompliance with Office of Management and Budget's Circular A-127. Further, we noted that there were a significant number of manual processes currently being used in key core financial management functions.

- We found property that was not included in the property system, property that was recorded but not recognized at the proper cost, and property that was capitalized when it should have been expensed. In addition, Rural Development was unable to locate some property.

- Rural Development's performance measures are not quantifiable, reliable, and fully supported by systems data. This control weakness was identified during last year's audit. Last year, we determined that in many cases performance data was either inaccurate or unsupported. Rural Development is continuing to work on its process to develop and implement proper procedures.

KEY RECOMMENDATIONS

We recommended that Rural Development: (1) Improve the methodology, support, and data control over the credit reform models; (2) implement procedures to reconcile its loan accounting systems directly to its general ledger; and (3) improve accountability over property.

AGENCY POSITION

Rural Development officials generally agreed with the issues and recommendations in this report. During the audit, we provided Rural Development officials several issue papers, and based upon their responses, we reached management decision on Recommendations Nos. 4 and 5.

TABLE OF CONTENTS

TABLE OF CONTENTS

RURAL DEVELOPMENT'S CONSOLIDATED
FINANCIAL STATEMENTS
FISCAL YEARS 2001 AND 2000
(Prepared by Rural Development)

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Michael E. Neruda
Deputy Under Secretary
for Rural Development

We have audited the accompanying Consolidated Balance Sheet of Rural Development, a mission area of the United States Department of Agriculture (USDA), as of September 30, 2001, and 2000, and the related Consolidating Statements of Net Cost and Changes in Net Position, and Combined Statements of Budgetary Resources and Financing for the fiscal years (FY) then ended. These financial statements are the responsibility of Rural Development's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the FY 2001 financial statements referred to above, including the accompanying notes, present fairly in all material respects, in conformity with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2001; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended. Our opinion on Rural Development's FY 2000 financial statements was qualified due to Rural Development's inability to reasonably estimate subsidy costs for its loan programs.

Our audit was conducted for the purpose of forming an opinion on Rural Development's financial statements taken as a whole. The information in Management's Discussion and Analysis and Required Supplementary Information sections represent supplementary information required by OMB Bulletin 97-01, "Form and Content of Agency Financial Statements." We have considered whether this information is materially consistent with the principal financial statements, and no material inconsistencies were noted.

We have also issued a report on Rural Development's internal controls, which cites seven reportable internal control weaknesses and a report on the mission area's compliance with laws and regulations, which cites two instances of noncompliance with laws and regulations.

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

JOYCE N. FLEISCHMAN
Acting Inspector General

January 14, 2002

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Michael E. Neruda
Deputy Under Secretary
for Rural Development

We have audited the accompanying principal financial statements of Rural Development as of and for the fiscal year ended September 30, 2001, and have issued our report thereon, dated January 14, 2002. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin 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 Rural Development's internal control structure, determined whether the internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The information presented in the Management Discussion and Analysis section is supplemental information required by OMB Bulletin 97-01, "Form and Content of Agency Financial Statements." OMB Bulletin 01-02 requires that we obtain an understanding of the internal controls designed to ensure that data supporting stated performance measures are properly recorded and accounted for to permit the preparation of reliable and complete information. Our audit work in the area of performance measures involved confirming the financial information included in the Management Discussion and Analysis section with information contained in the principal financial statements, and ensuring that there was data to support performance measures. As part of Audit No. 50601-2-Ch, conducted during fiscal year 2000, we reviewed and tested Rural Development's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in Management's Discussion and Analysis. At that time, we concluded that Rural Development's controls did not adequately ensure the accuracy of performance measures included in Management's Discussion and Analysis. Rural Development is continuing its work to develop new procedures and systems to support information presented in Management's Discussion and Analysis.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of Rural Development is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its FY 2001 FMFIA report, Rural Development reported to the Secretary of Agriculture that it generally complied with Section 2, Management Accountability and Control. Rural Development identified three material internal control weaknesses that included (1) Business Program's compliance with all applicable civil rights laws, executive orders, and program requirements; (2) oversight of the Multi-Family Housing Program to minimize abuse by participants; and (3) the lack of an effective system of internal control over performance reporting in compliance with GPRA.

Rural Development reported that it was not in compliance with Section 4 because its financial management/accounting systems do not comply with OMB Circular A-127. The FMFIA report discusses three material nonconformances in Rural Development's financial management systems. Besides noncompliance with OMB Circular A-127, it also discusses noncompliance with OMB Circular A-130, "Management of Federal Information Systems," as well as the need to develop credit reform subsidy models to estimate and re-estimate the cost of the Direct Single Family Housing and Multi-Family Housing Loan Programs. However, subsequent to issuing its FMFIA report, Rural Development has completed the subsidy models.

OIG'S EVALUATION OF RURAL DEVELOPMENT'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified Rural Development's significant internal control structure policies and procedures into the following categories:

- Direct Loans – consists of policies and procedures associated with authorizing and disbursing loans, collecting loan repayments, accruing interest and interest income and determining the allowance for subsidy;

- Guaranteed Loans – consists of policies and procedures associated with authorizing and disbursing payments, authorizing guarantees, collecting repayments on defaulted guaranteed loans and determining the liability for loan guarantees;

- Cash and Budgetary Resources – consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, borrowings and repayment of debt, and budgetary resources; and,

- Financial Reporting – consists of policies and procedures associated with processing accounting entries and preparing Rural Development's annual financial statements.

For each of the internal control structure categories listed above, we obtained an understanding of the design of significant control policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of Rural Development's internal control structure.

In making our risk assessment, we considered Rural Development's FMFIA reports, Office of Inspector General (OIG) audits, and other independent auditor reports on financial matters and internal accounting control policies and procedures. Regarding the 2001 FMFIA report, we agree with Rural Development's conclusions that it is generally in compliance with Section 2 and is not in compliance with Section 4.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Rural Development's ability to have reasonable assurance that the following objectives are met:

1. Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;

2. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and,

3. Transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material affect on the Principal Statements, and (b) any other laws and regulations that OMB, Rural Development, or we have identified as being significant for which compliance can be objectively measured and evaluated.

Matters involving internal control and their operation that we consider to be reportable conditions are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

I. ALTHOUGH LONGSTANDING PROBLEMS WITH CREDIT REFORM HAVE BEEN OVERCOME, SOME IMPROVEMENTS ARE STILL NEEDED

Since FY 1994, we have reported material weaknesses in the processes and procedures used by Rural Development to estimate and reestimate the costs of loan subsidies for loans made after FY 1991, as required by the Federal Credit Reform Act of 1990 (Credit Reform Act). For the FY 2000 financial statements, Rural Development implemented a new cash flow model for guaranteed loans which employed cash flow elements from Rural Development's automated systems. As a result of Rural Development's corrective actions and OIG's audit work, we were able to remove our qualification on the financial statement line item "Estimated Losses on Loan Guarantees" last year. However, last year's report also noted that improvements were needed to the methodology used to estimate future losses for loans made prior to FY 1992. For the FY 2001 financial statements, Rural Development implemented new cash flow models for direct loans obligated after FY 1991, which allowed us to determine the reasonableness of the estimates of loan subsidy costs for the first time since FY 1993. Additionally, Rural Development improved its methodology for estimating future loan losses for loans made prior to FY 1992. The actions taken have enabled OIG to assess the reasonableness of Rural Development's allowance for credit program receivables and remove our qualification for those financial statement line items impacted by that allowance.

Effective for FY 1992, the Credit Reform Act required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by the Credit Reform Act to mean the estimated long-term cost to the Government of direct loan or loan guarantees, calculated on a net present value basis, excluding administrative costs and incidental effects of receipts and outlays. The primary intent of the Credit Reform Act is to ensure that the subsidy costs of federal loan programs are taken into account in making budgetary decisions.

During FY 1999, the Department's Chief Financial Officer formed a task force under her overall leadership to assist in resolving the Department's longstanding credit reform problems. The task force included representatives from Rural Development, Farm Service Agency, Office of the Chief Financial Officer (OCFO), OMB, OIG and GAO. The task force developed a comprehensive plan to resolve credit reform issues by September 30, 2000; but due to the significance of the problems the completion date was moved to September 30, 2001. Although selected actions from the plan are not yet completed, the task force has substantially achieved its goals in overcoming the longstanding credit reform problems. The Department plans to continue utilizing the task force as a forum for credit reform discussions on emerging issues. We presented key task force accomplishments related to Rural Development in our report on its' FY 2000 financial statements, and key accomplishments since then include the following:

- New cash flow models for single family and multi-family housing (SFH and MFH) programs were developed. Documentation on the new models was developed to assist users. A sensitivity analysis was completed to identify the cash flow elements that have the most impact on the programs. Additionally, key cash flow data elements used in the models were verified from the automated systems to source documents.

- A monitoring process, as allowed by accounting standards, was developed to determine if significant changes in loan costs for material programs occurred during the current fiscal year. The monitoring process was needed because Rural Development generally performs reestimates as of the end of the prior fiscal year, and uses an automated "approximator" to estimate changes for the current fiscal year.

- The task force developed handbooks for estimating and reestimating loan costs, using Rural Development's new cash flow models. GAO reviewed and approved the handbook for nonhousing loans. OIG reviewed and approved the handbook on loan guarantees. The final documentation for the new housing models was provided to OIG in November 2001; and OIG plans to complete its review of those handbooks shortly.

- The task force discussed the accounting treatment of loans made prior to FY 1992 and the implementation of SFFAS 18 (which significantly changed the footnote disclosure related to loans and loan guarantees). The task force reached general consensus on approaches for both these issues, and worked together to overcome impediments encountered during the FY 2001 financial statement preparation process.

FINDING NO. 1

ESTIMATES IN BUDGET SUBMISSIONS AND FINANCIAL STATEMENTS CAN BE ENHANCED FOR LOAN COSTS ON LOANS MADE AFTER FY 1991

Rural Development invested significant resources to develop and document new cash flow models for estimating the subsidy costs associated with loans and loan guarantees obligated after FY 1991. However, the FY 2001 financial statements were updated with reestimates for loan programs for up to three fiscal years (FYs 1999 – 2001). Rural Development performed reestimates of over 30 programs, in most cases for the first time with new models. Our review disclosed areas where enhancements were needed to the processes and procedures used in estimating and reestimating the costs of loans and loan guarantees.

- The data used in the cash flow models did not always agree with the general ledger. Additionally, the data used to support Footnote 5 (Credit Program Receivables and Related Foreclosed Property, Net) was not always the same as the general ledger. We found that system data did not always correspond to the general ledger balances. (See Finding 4) Rural Development was able to provide support for any material deviations. However, in the future Rural Development needs to ensure that the data used for budget submissions and financials statements matches related data in the general ledger as well as maintain supporting documentation for any deviations from the general ledger.

- The handbooks are living documents and need to be updated as changes occur. For example, our reviews of the automated programs used to extract data for the cash flow models disclosed that the handbooks did not always reflect the data extraction programs used.

- Furthermore, due to time constraints, Rural Development was unable to extract data from its automated system for all of the cash flow elements needed for input to the model. Rural Development was able to demonstrate that the impact of the missing elements would not significantly change the determinations of subsidy rates. In the future, Rural Development plans to extract and input data for all cash flow elements needed by the SFH Model.

- The portions of the housing models for reestimating loan subsidy costs for the financial statements were developed after September 30, 2001, and revisions occurred as late as January 2002. Rural Development, OCFO and OIG made extraordinary efforts to ensure that the models were properly developed and implemented for the FY 2001 financial statements. Housing allowances were adjusted by over $39 million from the initial computation of loan subsidy costs.

Additionally, changes are needed to fine-tune the housing models. For example, Rural Development plans to refine the payment assistance curve, currently developed from incomplete historical data. Also, Rural Development should further consider how to best incorporate construction loans. Furthermore, the SFH Model currently employs data from other government agencies to project prepayments and defaults for the latter portion of the loan terms. As time passes, and more years of SFH data become available, Rural Development should replace the proxy data from other agencies with its own data.

FINDING NO. 2

ADDITIONAL IMPROVEMENTS ARE NEEDED IN ESTIMATING FUTURE LOAN LOSSES FOR LOANS MADE PRIOR TO FY 1992

As reported last year, OIG assessed the methodology used to develop future losses associated with loans made prior to FY 1992. Federal accounting standards (SFFAS 2) allow, but do not require, loans and loan guarantees made before FY 1992 to be restated on a net present value basis. Rural Development has elected to present these loans at net present value. In response to our prior report, Rural Development took the following actions:

- In July 2001, Rural Development provided OIG with a proposed methodology for determining allowances on loans and loan guarantees made prior to FY 1992. Rural Development invested significant resources in developing and documenting the methodology. This approach assumes that the average decline in actual cash flows over the most recent three years will continue throughout the life of the portfolio. OIG concurred with this approach for FY 2001, but noted that a better approach might be to project each future year's realizable, scheduled collections based on the historical relationship between actual and scheduled collections. Rural Development and OIG plan to explore implementing this alternative methodology for future years.

- Rural Development utilized a questionnaire to obtain information from program managers about any developments which might effect future loan performance. In taking this action, Rural Development incorporated an assessment of future events in its methodology, as recommended by OIG last year.

- Rural Development also completed corrective actions in response to a September 2000 report by GAO (GAO/AIMD-00-288: Impact of RUS' Electricity Loan Restructurings). Financial staff and RUS program staff have implemented quarterly meetings to discuss the financial health of the electric and telephone loan portfolios. RUS also documented criteria for identifying troubled borrowers.

Our current review disclosed that additional improvements are needed in the processes and procedures used to determine loan allowances and contingent losses.

- We found that the agreed-upon methodology was not always followed. Rural Development indicated that the results of applying that methodology did not always appear reasonable, and accordingly, Rural Development made selected changes in estimating the future losses. Although we concurred with most of the deviations from the documented methodology; we believed that failing to assume any future defaults was unreasonable. OIG and Rural Development agreed to a methodology to project defaults for those cases where initially none had been assumed; and Rural Development recomputed the impacted allowances. In the future, Rural Development should clearly document the rationale for any deviations from the documented methodology. Furthermore, Rural Development should analyze the processes used to develop this year's estimated future losses and continue to improve the documented methodology, as needed.

- Due to oversight, Rural Development did not initially adjust its contingent liability for guaranteed electric loans made prior to FY 1992. In response to OIG's concern, Rural Development recorded an adjustment to the financial statements of over $18 million.

RECOMMENDATION NO. 1

Establish a methodology to annually assess whether any changes are needed to the processes and procedures used to estimate the costs of loans and loans guarantees obligated after FY 1991. This methodology should include evaluating whether refinements are needed to the cash flow models, handbooks, or programs to extract cash flow data from automated systems.

RECOMMENDATION NO. 2

Implement controls to ensure that data used in budget submissions and financial reports agree with data reflected in the general ledger. If deviations from the general ledger are deemed appropriate, maintain supporting documentation explaining the differences.

RECOMMENDATION NO. 3

Continue to refine the methodology used to determine future losses for loans made before FY 1992 and update the written methodology as needed. Additionally, ensure that documentation is maintained to fully explain deviations from the documented methodology.

II. IMPROVEMENTS STILL NEEDED IN INFORMATION TECHNOLOGY (IT) CONTROLS

FINDING NO. 3

We reported in prior audit reports (50401-21-FM, May 1998 and 85099-1-FM, March 2000) that the Rural Development IT security program needed strengthening. OIG performed an IT security review at Rural Development in FY 2001 and found that previously reported problems had not all been corrected and additional weaknesses existed. Also, OIG reviewed controls at the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC) for FY 2000 and identified internal control problems which impact Rural Development's operations. As a result of weaknesses identified at both agencies, Rural Development is highly vulnerable to intrusion from within and externally; and its computer systems, data, and programs are at risk for misuse.

We reported on our examination of OCIO/NITC's internal control structure in Audit Report 88099-3-FM, dated September 21, 2001. Our review disclosed material internal control weaknesses that could impact Rural Development operations, such as the need for strengthened controls over accesses to its resources from the Internet; improved vulnerability scanning and response to identified weaknesses; and improved controls over access authorities established for authorized users. We recommended actions be taken to (1) improve its controls over logical access to its resources (2) include all appropriate systems in vulnerability scans and establish policies to take prompt action to investigate and mitigate identified vulnerabilities; and (3) require Internet access of NITC mainframes to go through a controlled, secure manner and implement a warning banner to ensure that users acknowledge their access to a U.S. Government system. NITC generally agreed with the recommendations in this report, and corrective actions have been completed with regards to the vulnerability scans.

During FY 2001, we reviewed selected aspects of Rural Development's security of IT resources. We are in the process of reporting the results of this review (Audit No. 85099-2-FM) to Rural Development. Our review disclosed the following:

- Disaster recovery and contingency plans, which assist in the continuity of operations, are not up to date and do not exist for all Rural Development facilities.

- Rural Development has not certified all of its financial management systems as required by OMB Circular A-130, "Management of Federal Information Resources".

- Rural Development does not perform regular internal security assessments. Furthermore, vulnerabilities in its systems identified by Rural Development's contractors in 1997 and again by OIG in 1999 have not been appropriately corrected.

- User ID's and password management controls were not adequate. OIG identified numerous logical access weaknesses with LAN, Dial-up and DLOS application user accounts.

Because of issued or forthcoming OIG reports addressing these issues, we are making no recommendations herein.

III. AGENCY DATA SYSTEMS DID NOT RECONCILE TO THE GENERAL LEDGER

FINDING NO. 4

The balances in some general ledger accounts at June 30, 2001, did not correspond to amounts in the Dedicated Loan Origination and Servicing System (DLOSS), the Automated Multi-housing Accounting System (AMAS), and the Rural Electric and Telephone (RET) system. We attributed the differences to general processing errors, transactions posted to the wrong fund or accounts, and to timing differences related to when transactions were posted to the general ledger and supporting accounting systems. Rural Development had not detected the differences because it had inadequate reconciliation procedures. While the differences were immaterial to the financial statements taken as a whole, they disclosed control weaknesses that could negatively impact our overall conclusion on general ledger balances. Rural Development has identified and corrected most of the differences and plans to strengthen controls in the future.

The Joint Financial Management Improvement Program's (JFMIP) Core Financial System Requirements provide guidance on general ledger analysis and the reconciliation process. JFMIP states that this process supports the control functions of the general ledger. It further stipulates that to support the general ledger analysis and reconciliation process, the Core financial system must provide the capability to compare amounts in the general ledger accounts with the amounts in the related subsidiary records and create reports for those accounts that are out of balance. This capability must be available for all open accounting period balances and at frequencies defined by the user.

Our review of general ledger balances as of June 30, 2001, disclosed that Rural Development had not performed a reconciliation with supporting data systems. We performed our reviews as part of the data validity testing for the credit reform models, and for the loan confirmation process.

The out-of-balance conditions between the data systems listed above and general ledger account balances were not detected because of inadequate internal controls. For DLOSS, the unpaid principal balance for loans made after FY 1991 was $1.2 million different than the balance shown in the general ledger. In AMAS, the unpaid principal balance was over $571,000 more than the amount reflected in the general ledger, and in the same system, rental assistance had a net difference of almost $228,000. The RET system had a net difference of over $147,000 from the amounts shown in the general ledger. (Absolute differences in telephone and electric loans totaled over $4.5 million for the year; differences were as much as $12 million in one month during the first 6-months of FY 2001.)

Rural Development performed extensive research to determine the cause of the differences. We reviewed Rural Development's research and concluded that most of the out-of-balance conditions were the result of timing differences related to receiving and posting transactions, transactions that were posted to the wrong fund or account, and general processing errors.

The cause of some differences was never identified. These differences amounted to about $94,000 in AMAS and $73,000 in AMAS rental assistance. Rural Development has pledged to resolve and correct these differences by the third quarter of FY 2002.

We provided Rural Development with Issue Paper 01-02 that highlighted our overall concerns with its reconciliation process and recommended actions to resolve the issue. Even though the amounts uncovered in our review are immaterial to financial statements taken as a whole, without adequate reconciliation procedures, there is reduced assurance that financial statement balances are accurate.

RECOMMENDATION NO. 4

Develop and implement reconciliation procedures and correct unresolved differences between the general ledger and the three sub-systems.

AGENCY REPONSE

In a letter dated December 7, 2001, Rural Development agreed with the conclusions and recommendation in our Issue Paper. In addition to correcting the unresolved differences noted in our Issue Paper, it agreed to enhance current reconciliation processes by developing and implementing procedures to periodically reconcile general ledger balances to the supporting borrower sub-systems. Rural Development committed to developing and implementing these procedures by the third quarter of FY 2002.

OIG POSITION

We accept Rural Development's management decision on this recommendation.

IV. ACCOUNTABILITY OVER PROPERTY NEEDS IMPROVEMENT

FINDING NO. 5

Rural Development had not accurately accounted for property included in the Personal Property System (PROP). We uncovered property that was: (1) not included in the property system; (2) recorded, but not recognized at the proper cost; and (3) capitalized when it should have been expensed. Further, Rural Development was unable to locate some property. We attributed these deficiencies to control weaknesses over the process of recording property into PROP and to inadequate inventory procedures. Failing to accurately account for property increases the risk that assets and information could be lost, stolen, or subjected to unauthorized use and disclosure. In addition, while the amount of unrecorded property was not material to the agency's financial statements taken as a whole, it still represented significant amounts that were not properly reflected in the property, plant, and equipment account balance.

Departmental regulations[1] require that each agency perform a periodic physical inventory and reconcile the results of its inventory to property management records to ensure the accountability of assets. They also require that agencies establish controls, which ensure that assets are properly accounted for in PROP.

PROP is an online data base management system and a subsystem of the Property Management Information System. PROP integrates fiscal accounting with property accountability and provides uniform data for the management and control of accountable, leased, loaned, sensitive, and excess property. It also interfaces with various departmental payment systems to access accounting and procurement transaction data. This data is updated in PROP based on the appropriate property Budget Object Classification Code (BOCC) shown on the procurement document.

During our audit, we conducted a physical inventory of Rural Development's property at its various operational sites in St. Louis, Missouri and in seven States to determine if property had been accurately accounted for in PROP. Our physical inventory uncovered serious problems with the accountability of property. Rural Development had

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[1] Agriculture Property Management Regulations, Amendment No. N-1, Part 104, Paragraphs 51.106 and 51.107, dated January 1997.

performed a similar physical inventory in March 2001, only a few months before our review, but did not identify the problems.

At the three sites in the St. Louis area, there were 179 property items listed in PROP. Our review confirmed the existence of those items, but also identified an additional 400 property items that were not recorded in PROP. Most of the items not included in PROP were computer servers, networking equipment, and laptop computers. These items should have been included in PROP to ensure accountability of property and the accuracy of financial reporting. While not material to the financial statements taken as a whole, the unrecorded property resulted in a significant understatement of the property, plant, and equipment account. We determined that the acquisition cost for 221 of the 400 additional items uncovered in our review amounted to nearly $6.2 million. We could not determine the unrecorded amount for the remaining 179 items because Rural Development had not maintained adequate documentation of the acquisition cost.

Our review in the seven States identified 408 property items that should have been, but were not, included in PROP. As with the property identified in the St. Louis area, these items were not reflected in the property, plant, and equipment account. Further, many of the items were laptop computers that could easily have been stolen. Without inclusion in PROP and periodic reviews of physical inventory, Rural Development would not know if property was missing.

Another serious problem was that a significant number of property items could not be located by Rural Development staff. For example, in one State, Rural Development officials were unable to locate 16 of 49 items listed in PROP. Overall, Rural Development State officials were unable to locate 51 of 183 items listed in PROP.

We also found that Rural Development was not recognizing the full cost of property acquired by the agency. Cost data such as transportation, handling, and installation charges were normally not included in the overall cost determinations. For example, Rural Development did not include the 1 percent handling charge for 40 laptop computers recorded in PROP. This occurred because Rural Development had not developed procedures to track costs related to the purchase of accountable items.

Rural Development was also using incorrect BOCC’s on purchase order documents. Our review of purchase order documents disclosed that in 25 of 50 instances, Rural Development had used an incorrect BOCC. As a result, some property that was valued at less than $5,000 was capitalized while other property, valued at more than $5,000, was not capitalized.

We provided an issue paper on October 1, 2001, to Rural Development that detailed our observations and concluded that most of the deficiencies uncovered by our reviews were attributable to inadequate input and physical inventory procedures. In its response, dated October 10, 2001, Rural Development generally agreed with our findings and agreed to perform a physical inventory, and reconcile the results of that effort to PROP, by March 31, 2002. It also agreed to revise its management control process and inventory procedures, and to provide training to the appropriate staff on the proper use of BOCC's.

RECOMMENDATION NO. 5

Perform a physical inventory of property and reconcile the results to PROP.

AGENCY RESPONSE:

Rural Development agreed with our recommendation and will perform a physical inventory, and reconcile the results of that effort to PROP, by March 31, 2002.

OIG POSITION:

We accept Rural Development's management decision on this recommendation.

RECOMMENDATION NO. 6

Develop procedures to ensure that (1) data is entered into PROP, (2) data and associated costs entered into PROP are accurate, and (3) a periodic physical inventory and reconciliation to PROP are timely performed.

AGENCY RESPONSE

Rural Development will revise its management control process for FY 2003 to include a review of inventory procedures. In addition, property management officers, and their respective managers, such as State

Directors, will be instructed to verify and certify to the accuracy of all property listed in PROP after the physical inventory is completed on March 31, 2002. Rural Development will also provide training to the appropriate staff on the proper use of BOCC's and, by June 2002, will formalize guidance on the proper use of BOCC's and the need to recognize the entire cost of acquiring an asset in PROP.

OIG POSITION

We agree with Rural Development's corrective actions. However, to reach a management decision on this recommendation, Rural Development will need to provide timeframes for revising its management control process.

V. FMFIA PROCEDURES DID NOT PROVIDE ADEQUATE ASSURANCE THAT MATERIAL INTERNAL CONTROL WEAKNESSES WOULD BE DETECTED

FINDING NO. 6

During our review of Rural Development's compliance with the reporting requirements of the Federal Managers Financial Integrity Act (FMFIA), Audit No. 85401-4-Ch, we determined that the agency did not have an effective process for identifying and reporting material internal control weaknesses. One of our major concerns was with Rural Development's broad definition of a material internal control weakness that did not include either quantitative or sufficient qualitative measures. Thus, senior managers could reject as insignificant, internal control weaknesses identified by program staff. For example, in one instance, senior managers dismissed a material internal control weakness that could result in the physical deterioration of low-income apartment complexes. Rural Development expects estimated repair costs to reach into the hundreds of millions of dollars.

We also concluded that Rural Development had not established a level of risk for individual controls within each program, but instead assessed an overall risk for each program being reviewed. As a result, high-risk individual controls within each program were reviewed equally with low-risk controls. In addition, the results of State Internal Reviews were not used to identify material internal control weaknesses even though agency procedures identify this as a major component of the FMFIA reporting process.

Finally, we determined that the agency had not provided adequate oversight over the FMFIA process. The division responsible for overseeing the FMFIA process did not ensure that staff performed adequate and consistent tests of agency programs and did not adequately coordinate the functions used to analyze and report on agency internal control weaknesses.

Because OIG performed this work in a separate audit (Audit No. 85401-4-Ch), we are making no further recommendations herein.

VI. MD&A CONTINUES TO LACK MEANINGFUL PERFORMANCE MEASURES

FINDING NO. 7

We reported last year, based on work performed during Audit No. 50601-2-Ch, that Rural Development's system for generating performance data for the Management Discussion and Analysis (MD&A) section of its FY 2000 financial statements did not produce meaningful performance indicators that measured progress toward meeting performance goals. We also reported that its system generally produced either inaccurate results or could not support results reported.

OMB Bulletin 97-01 and the Statement of Federal Financial Accounting Standard No. 15 provide that the MD&A should include vital, significant program indicators that would affect the judgments and decisions of people who rely on the financial statements as a source of information. The program indicators included should also be significant to the management, budgeting, and oversight functions of Congress and the Administration.

In response to Audit No. 50601-2-Ch, Rural Development agreed to revise its system for generating more outcomes oriented performance measures, including those that would be reported in the MD&A section of its financial statements. It is also developing controls to ensure that performance measures are quantifiable, reliable, and fully supported by systems data. In addition, Rural Development had its Deputy Chief Financial Office staff work closely with mission area program managers on the Government Performance Results Act implementation committee to identify the supportable indicators for the MD&A section that would best describe the success of the various programs.

Rural Development's goal was to identify the significant indicators, along with the outcomes associated with the indicators, by September 30, 2001. However, it was unable to achieve this goal and now plans to include this information in the MD&A section of its FY 2002 financial statements. Consequently, the MD&A section of Rural Development's FY 2001 financial statements continues to lack meaningful performance indicators that measure progress toward meeting performance goals.

Since Rural Development is continuing to work towards reaching final action on recommendations included in Audit No. 50601-2-Ch, we are making no further recommendations herein.

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable condition described in Finding Nos. 1 and 3 are material weaknesses.

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/
JOYCE N. FLEISCHMAN
Acting Inspector General

January 14, 2002

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Michael E. Neruda
Deputy Under Secretary
for Rural Development

We have audited the principal financial statements of Rural Development as of and for the fiscal year ended September 30, 2001, and have issued our report thereon, dated January 14, 2002. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Rural Development is responsible for compliance with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether Rural Development's principal financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance and did not test compliance with all laws and regulations applicable to Rural Development. We tested compliance with:

- Anti-Deficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990;
- Debt Collection Improvement Act of 1996;
- Federal Credit Reform Act of 1990;

- Federal Financial Management Improvement Act of 1996;
- Federal Managers' Financial Integrity Act of 1982;
- Government Management Reform Act of 1994;
- Government Performance and Results Act of 1993;
- Housing Act of 1949, Title V, as amended; and,
- Rural Electrification Act of 1936, as amended.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared the most recent FMFIA reports with the evaluation we conducted of Rural Development's internal control structure. We also reviewed and tested Rural Development's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Management Discussion and Analysis section. Our analysis disclosed weaknesses in reporting performance measures. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether Rural Development's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA, Section 803(a) requirements. The results of our tests disclosed instances where Rural Development's financial management systems did not substantially comply with these requirements.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material Instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

FINDINGS

I. FINANCIAL MANAGEMENT SYSTEMS NEED IMPROVEMENTS

FINDING NO. 1

Rural Development reported in its most recent FFMIA Remediation Plan, dated October 25, 2001, that its financial management systems are not in compliance with Federal Financial Management Systems Requirements (FFMSR). The Remediation Plan shows remedial corrective actions to be taken through FY 2003, including:

- Ensure substantial compliance with OMB Circular A-130, “Management of Federal Information Systems” and,
- Ensure that direct loan accounting systems adequately sustain the current organization missions and substantially comply with OMB Circular A-127, “Financial Management Systems”.

With regards to the latter item, Rural Development further explains that its direct loan systems for servicing RUS electric and telephone loans are inefficient, labor intensive and lack automated controls. The RUS legacy loan systems are being replaced with a new system which meets FFMSR[2].

In order to facilitate achieving compliance with FFMSR, Rural Development and OIG agreed in FY 2000 to review financial management systems using GAO checklists based on FFMSR requirements. Thus far, Rural Development has reviewed its Core financial system as well as three loan systems (AMAS, DLOSS and GLS). Rural Development plans to review an additional loan system (PLAS) during FY 2002. OIG has concurred with Rural Development’s conclusion of substantial compliance for the Core financial system and GLS, and plans to complete its evaluation of the AMAS and DLOSS reviews during FY 2002.

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[2] The Remediation Plan also shows planned actions to prepare financial statements in accordance with credit reform requirements defined in SFFAS No. 2., in order to achieve substantial compliance with applicable federal accounting standards. However, as discussed earlier in this audit report Rural Development had substantially completed corrective actions for longstanding credit reform problems for its FY 2001 financial statements.

Although OIG concurred that two systems substantially complied with FFMSR, Rural Development's reviews identified instances of noncompliance. For its Core financial system, Rural Development reported three exceptions: the lack of an automated cost accounting system, the failure of RUS legacy systems to comply with OMB Circular A-127, and inadequate controls to ensure that performance measures are reliable and quantifiable. Rural Development's review of its GLS noted two exceptions: the lack of an automated cost accounting system and the need to automate the quarterly reporting process for the Guaranteed Rural Housing Program. (During FY 2001 Rural Development did implement the automated quarterly reporting process.) With regards to a cost accounting system, Rural Development has agreed to follow the Department's guidance in developing one for Rural Development.

In addition to the above items which need improvement, OIG noted Rural Development meets many of the core financial management requirements through a multitude of manual processes. Rural Development's ability to continue achieving FFMSR compliance through manual processes will only worsen as financial reporting requirements are increased and timeframes are accelerated; and the volume of data needed (such as more cohorts for credit reform reporting) grows.

II. IMPROVED REFERRAL OF DELINQUENT DEBT IS NECESSARY

FINDING NO. 2

GAO reported on December 5, 2001, to the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives, that the Rural Housing Service (RHS), an agency within Rural Development, was not in compliance with certain provisions of the Debt Collection Improvement Act of 1996 (DCIA).

The DCIA requires federal agencies to refer all legally enforceable and eligible non-tax debts that are more than 180 days delinquent to Treasury for collection through administrative offset[3] and cross servicing. GAO had the following concerns:

- RHS did not maintain supporting documentation for direct single-family housing loans it excluded from such referral as of September 30, 2000.
- Prior to May 2001, RHS had not referred single-family housing debt to FMS for cross servicing. At that time, RHS began an interim process to manually identify about 100 to 200 loans for referral, per month.
- RHS might be understating the amount of direct single-family housing loans that are being referred to FMS as part of the Treasury Offset Program (TOP).
- RHS had not referred losses on guaranteed loans to FMS for either TOP or cross servicing.

GAO plans to issue an audit report by February 28, 2002, that details its findings and recommendations for corrective action. Consequently, we are making no further recommendations herein.

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[3] Debt Collection Improvement Act, Public Law 104-134, dated April 26, 1996.

We considered these material instances of noncompliance in forming our opinion on whether the fiscal year 2001 Principal Financial Statements of the Rural Development are presented fairly, in all material aspects, and this report does not modify our opinion on Rural Development's Principal Financial Statements expressed in our report, dated January 14, 2002.

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/
JOYCE N. FLEISCHMAN
Acting Inspector General

January 14, 2002

ABBREVIATIONS

FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
MD&A	Management's Discussion and Analysis
OIG	Office of the Inspector General
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

USDA
RURAL DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year 2001

- ***Rural Housing Service***
- ***Rural Utilities Service***
- ***Rural Business-Cooperative Service***

**Prepared by
Deputy Chief
Financial Officer
St. Louis, MO.**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RURAL DEVELOPMENT'S CONSOLIDATED STATEMENTS

Mission

This Management's 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 to be a partner in helping the people of rural America develop sustainable communities. Its mission is to enhance the ability of rural communities to develop, grow, and improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential. This mission area was created by legislation signed into law on October 13, 1994.

The Rural Development Long Range Plan 2000-2005 defines the mission area's goals. The Plan was prepared in accordance with the requirements of the Government Performance and Results Act of 1993, and describes Rural Development's anticipated accomplishments. It includes Rural Development's objectives as well as performance goals and results that provide a basis for measuring its success. Several of these performance goals have been included in the MD & A section accompanying these financial statements.

Rural Development programs are designed to meet the diverse needs of rural communities and to help them obtain the financial and technical assistance needed to improve the quality of life in rural America and 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 environmental; electric power; and telecommunications, including distance learning and telemedicine.

Organizational Structure

Three agencies, the Rural Housing Service (RHS), Rural Utilities Service (RUS), and Rural Business-Cooperative Service (RBS) plus the Office of Community Development, which administers the Administration's rural Enterprise Zones/Enterprise communities initiative, and the National Rural Development Partnership, a nationwide network of rural development leaders and officials committed to the vitality of rural areas, constitute the Rural Development mission area.

Loan Programs

Rural Development loan programs, with an outstanding portfolio of approximately $83.1 billion, are delivered through a National Office for each agency, 47 state offices, and a network of other field offices. The mission area is supported by a Finance Office 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 portfolio. The mission area serves approximately 433,350 single family housing borrowers, 15,878 multi-family housing borrowers, 10,826 community and business borrowers, and 2,149 telecommunications, electric, cable TV, and distance learning and telemedicine borrowers.

In addition, we guarantee approximately 183,706 single-family housing, 10 multi-family housing, 2,910 business & community service, and 20 electric & cable TV borrowers.

Rural Development loan programs generally require (1) providing loans to individuals and enterprises who 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.

Total Loan Portfolio as September 30, 2001
Fiscal Years 1999 Through 2001
(Dollars in Billions)

	FY 99	FY 00	FY 01
Direct Loans			
RHS			
Single Family Housing	$16.6	$16.7	15.9
Multi-Family Housing	11.9	11.7	11.9
Community Facilities/Other	0.7	0.9	1.0
RUS			
Water & Environmental/Other	6.8	7.2	7.6
Electric	28.1	27.1	26.5
Telecommunications	3.6	3.6	3.5
Rural Telephone Bank	1.2	1.2	1.1
RBS			
Business and Industry	0.5	0.6	0.7
Total Direct	69.4	69.0	68.2
Guaranteed Loans			
RHS			
Single/Multi-Family Housing	8.8	10.2	11.4
Community Facilities/Other	0.2	0.2	0.2
RUS			
Water & Environmental/Other	0.1	0.1	0.1
Electric	0.4	0.4	0.5
RBS			
Business and Industry	2.1	2.5	2.7
Total Guaranteed	11.6	13.4	14.9
Total Loan Portfolio	$81.0	$82.4	$83.1

The total loan portfolio balance slightly increased during FY 2001. This is a result of the increase in the guaranteed loan portfolio balance greater than the decline in the direct portfolio. This has been the trend for the last three fiscal years.

Rural Business-Cooperative Service

The mission of RBS 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. RBS accomplishes this mission by investing its financial resources and technical assistance in businesses and cooperatives, and by building partnerships that leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity. This is accomplished through the delivery of a variety of loan, loan guarantee, and grant programs as well as providing direct technical advisory and education assistance for cooperatives. The following reflects the loan obligations for the RBS programs for the most recent fiscal years

RBS Loan Obligations
Fiscal Years 1999 Through 2001
(Major Program Areas)
(Dollars in Millions)

	FY 99		FY 00		FY 01	
	Total Amount	Total Loans	Total Amount	Total Loans	Total Amount	Total Loans
Direct Loans						
Rural Economic Development	15	42	15	40	23	66
Business & Industry	26	60	30	54	51	48
Intermediary Relending Program	33	47	38	68	39	69
Guaranteed Loans						
Business and Industry	1,244	792	1,027	559	1,076	591

Under the B&I guaranteed and direct loan programs, financial assistance is provided to virtually any legally organized entity, including cooperatives, corporations, partnerships, trusts, or other profit or nonprofit entities, Indian Tribes, or a Federally recognized Tribal group, municipalities, counties, or another political subdivision of a State. Applicants need not have been denied credit elsewhere to apply for the B & I guaranteed loan program.

The Intermediary Relending Program (IRP) Loans are made to intermediary borrowers who, in turn, relend the funds to rural businesses, private nonprofit organizations and others meeting the criteria for ultimate recipients. The Rural Business Enterprise Grant (RBEG) Program provides grants to public bodies, private nonprofit corporations, and Federally-recognized Indian tribal groups to encourage the development of small and emerging private business enterprises; the creation, expansion, and operation of rural distance learning networks; and to provide adult education or job training related to potential employment or job advancement for adult students. The Rural Economic Development (Zero-Interest) Loan (REDL) and Grant Programs provide financial assistance to RBS borrowers to relend the funds to assist in developing rural areas, from an economic standpoint, to create new job opportunities and help retain existing employment.

One of the objectives of RBS is to direct the Rural Development program resources to those rural communities and customers with the greatest need. They achieve this objective by investing in Empowerment Zones/Enterprise Communities (EZ/EC) and Champion Communities. EZ, EC and CC are areas that have been identified throughout the country as areas in need. Targeting funds to projects in those areas increases the Agency investment in areas of greatest need. The following are performance indicators that illustrate how RBS is achieving their goal and this objective.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Invest Rural Business Enterprise Grant funds in EZ/EC Communities	22.0%	12.7%	22.0%
Invest Intermediary Relending Program funds in EZ/EC Communities	4.7%	10.6%	19.0%
Invest B&I Guaranteed Loan Program Funds in EZ/EC Communities	1.4%	.8%	1.4%

The goal of directing program resources to those rural communities and customers with the greatest need was not met. For the indicator related to usage of IRP funds in EZ/EC/REAP communities, the estimates were based on the percentage of the appropriation earmarked for these targeted communities. All applications that were received before the June 30 deadline, and were eligible for the earmarked funds, were funded. However, in spite of Agency outreach efforts, the applications received were only enough to use 10.6 percent of the total IRP and 12.7 percent of the total RBEG funds available for the program. For other initiatives, there were fewer applications than expected, which caused the goal to not be met.

Another objective that RBS has is to manage their loan portfolio in a manner that is efficient and effective. By aggressively managing the Business and Industry guaranteed loan program to keep low levels of delinquent loans RBS will ensure the objectives of the program are met and maintained by keeping businesses operating and contributing to the economic well being of the rural community. The following performance indicator illustrates how RBS is meeting their objective.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Maintain a delinquency rate, excluding bankruptcy cases, for guaranteed Business and Industry loans	4.2%	4.0%	3.0%

While the goal was not met, there was a reduction from the FY 2000 delinquency level which was 4.2 percent (excluding loans in bankruptcy). We were able to lower the delinquency percentage by adding additional guaranteed loans and by carefully monitoring the lending and servicing activities of the State offices.

Rural Housing Service

The RHS mission is to improve the quality of life in rural America and help build competitive, vibrant rural communities through its community facilities and housing programs. The goal for the RHS as stated in its Long-Range/Strategic Plan is to improve the quality of life of rural residents by providing access to technical assistance, capital and credit for quality housing and modern, essential community facilities. The following reflects the loan obligations for the RHS programs for the most recent fiscal years.

RHS Loan Obligations
Fiscal Years 1999 Through 2001
(Major Program Areas)
(Dollars in Millions)

	FY 99		**FY 00**		**FY 01**	
	Total Amount	Total Loans	Total Amount	Total Loans	Total Amount	Total Loans
Direct Loans						
Single Family	$1,009	20,869	$1,176	22,706	$1,112	21,379
Multi-Family	141	274	144	328	115	282
Community Facilities	163	453	199	451	325	636
Guaranteed Loans						
Single Family	2,977	39,752	2,151	29,123	2,342	29,852
Multi-Family	75	51	100	53	0*	2
Community Facilities	107	118	87	101	139	88

*Less than $1 million was obligated in total.

Single Family Housing Programs

RHS provides financing, with no down payment and at favorable rates and terms, either through a direct loan with RHS or with a loan from a private financial institution which is guaranteed by RHS. The direct Single Family Housing (SFH) program is the largest component of the rural housing portfolio. Direct SFH loans are made to families or individuals with very low, low, and moderate income to buy, build, improve, repair, and/or rehabilitate rural homes. These loans are normally repayable over 33 years at an effective interest rate as low as 1 percent annually. The average interest rate for Fiscal Year (FY) 2001 was 5.31 percent with 47 percent of all SFH loans receiving interest assistance. RHS provides grants to enable very low income rural homeowners to remove health and safety hazards in their homes and to make homes accessible for people with disabilities.

The field offices handle the direct SFH loan application process and some servicing functions, and the Centralized Servicing Center handles most phases of direct loan servicing, from risk management to borrower assistance. RHS also offers escrow accounts for property taxes and insurance for its home loan borrowers.

The table which follows reflects one of the key performance indicators for the single family housing program objective of improving the quality of life for the residents of rural communities by providing access to decent, safe, affordable housing. This objective and the goal of RHS seek to improve the quality of life for rural residents by providing the necessary credit to purchase/construct quality housing and become homeowners. The specified programs provide the 100% 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.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Number of rural households receiving financial assistance to purchase a home of their own.	45,420 households	44,073 households	68,000 households

Rural Development did not meet its goal for number of rural households receiving financial assistance in FY 2001. The goal overall and most targets were met for the direct loan program but were not met for the guaranteed loan program. The target of 42,000 Section 502 Guaranteed loans assumed the use of all of the funds allocated for the program. This situation did not occur because the number of loans closed for the whole year under the Section 502 Guaranteed Loan Program (29,298) was 30.2 percent, or 12,674 loans, less than the 42,000 target for the Section 502 Guaranteed Loan Program. This decline is the opposite of the increase in home mortgages originated throughout the country and is attributable to factors in the RHS program such as the lack of an automated underwriting capability, the lack of a refinancing capability for much of the year, and the prohibition on cash-out or equity withdrawal refinancing.

Another key performance indicator for RHS is reflected below and supports the objective to manage the loan portfolio in a manner that is efficient and effective. The indicator reflects how well the accounts are monitored and supervised during the first twelve months after loan closing. By providing effective loan servicing supervision through both the local offices and the Centralized Servicing Center, borrowers who, without proper counseling and assistance, would have faced blemished credit reports and even foreclosure are able to remain in their homes thus avoiding a diminished quality of life. This performance indicator was met.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Maintain a first year delinquency rate for SFH customers	3%	3%	3%

Guaranteed loans make up the remaining portion of the SFH portfolio. Loan guarantees are made for an amount not to exceed 90 percent of the loan amount. These loans are normally repaid over 30 years with the interest rates negotiated between the borrower and the lender. The guaranteed rural housing program continues to demonstrate its commitment to achieve maximum leveraging. As shown on the following chart, the program continues to grow, with an 11 percent increase in the number of borrowers with guaranteed loans between FY 2000 and FY 2001.

	FY 1999	FY 2000	FY 2001
Number of Guaranteed Single Family Housing Loans in Portfolio	144,695	165,293	183,886
Number of Guaranteed Single Family Housing Borrowers in Portfolio	144,620	165,188	183,706
Total Portfolio*	$8.8 billion	$10.2 billion	$11.4 billion

*This is the guaranteed portion only

Multi-Family Housing Programs

The Multi-Family Housing program finances farm labor housing, rural rental housing, and cooperative housing for low income and elderly people in rural communities of under 10,000 population. 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. These loans are generally repayable over 33 years at an interest rate of as low as 1 percent annually.

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. These loans are generally repayable over 50 years at an average interest rate of 2.92 percent for FY 2001. In addition, grants are provided to public nonprofit organizations to assist rental property owners and co-ops to repair and rehabilitate their units.

The Multi-Family Housing program has established the following performance indicator to illustrate how they are meeting the objective to manage the MFH loan portfolio in a manner that is efficient and effective. When delinquency and losses are minimized, more affordable housing is available for eligible rural residents which helps to meet the RHS goal of providing more quality housing to improve the lives of rural residents.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Number of projects with accounts more than 180 days past due	150	146	130

Although the target for the Rural Rental Housing projects with accounts more than 180 days past due was not achieved, substantial progress was made in reducing the number of Rural Rental Housing projects with accounts more than 180 days past due. The 146 projects are equivalent to a delinquency rate of less than 1% of the portfolio.

RHS' objective to improve the quality of life for the residents of rural communities by providing access to decent, safe, sanitary and affordable housing is reflected in the performance indicator below. By providing rental assistance, RHS is directing resources to those rural communities and customers with the greatest need.

Performance Indicator	Actual FY 2000	Actual FY 2001	Target FY 2001
Number of households not displaced by loss of rental assistance (number of renewals).	38,489	39,159	42,000

The number of households not displaced by loss of rental assistance (number of renewals) was slightly below target because the number of actual renewals was less than projected due to several factors: tenant income, vacancies, etc. No tenants were displaced by loss of rental assistance. The rental assistance (RA) not needed for renewals were used for additional RA units in existing and new MFH projects.

Community Facilities Programs

Rural Development strives to improve the quality of life of rural residents by providing access to modern, essential community facilities such as fire stations, health care clinics and child care facilities. RHS continues to offer both direct and guaranteed loans which are made available to public entities such as municipalities, counties, and special purpose districts as well as nonprofit corporations and tribal governments. These loans are repayable up to 40 years and recipients must demonstrate that they are unable to obtain capital from commercial sources.

Obligations in the Insured Community Facilities program increased by 63% percent this year to $325 million.

A key performance indicator is reflected below and supports the RHS objective to manage the loan portfolio in a manner that is efficient and effective. The indicator reflects how well the accounts are monitored and supervised. When delinquency and losses are minimized the facilities are in a better position to assist the rural residents they are serving thus improving the quality of life for their customers. This goal was achieved by RHS.

Performance Indicator	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Maintain delinquency rate for CF customers	2%	2%	2%

Rural Utilities Service

The RUS mission is to serve a leading role in improving the quality of life in rural America by administering its electric, telecommunications (including distance learning and telemedicine), and water and environmental programs in a service-oriented, forward-looking and financially responsible manner. The RUS 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.

RUS Loan Obligations
Fiscal Years 1999 Through 2001
(Major Program Areas)
(Dollars in Millions)

	FY 99		FY 00		FY 01	
	Total Amount	Total Loans	Total Amount	Total Loans	Total Amount	Total Loans
Direct Loans						
Water/Environmental	721	900	766	909	789	922
Electric/FFB	1,567	179	2,064	145	2,556	222
Telecom/FFB	461	81	676	91	769	102
Guaranteed Loans						
Water/Environmental	6	7	11	9	5	6
Electric/Tele	150	8	53	5	59	4

Electric Program

As the 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 program provides financing and technical assistance to upgrade, expand, and maintain the vast rural American electric utility infrastructure. Electric borrowers have received more than $59.7 billion in loans and loan guarantees as of December 31, 2000. During fiscal year 2001, loans and guarantees totaling $2.62 billion were approved. For Federal budgeting and accounting purposes, loans made by the Federal Financing Bank (FFB) under a RUS guarantee are considered direct loans. In addition to loans and guarantees approved, another $55 million in loans were repriced and loans totaling $12 million were refinanced during the year.

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 their objectives and performance indicators.

Performance Indicators	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Leverage private funds in rural electric infrastructure for every $1 of RUS electric program loan advances.	$2.77	$0.70	$2.73
Number of electric borrowers serving persistent poverty counties receiving financial assistance to establish or improve local electric service	72	98	72
Number of electric borrowers serving the 700 counties experiencing out-migration receiving financial assistance to improve the local electric service.	73	97	83
Number of residences and businesses to benefit from improved electrical systems (in millions).	2.3	3.5	2.7

Loans are primarily used to finance the acquisition, construction, improvement, or replacement of facilities for the distribution of electric power. The guaranteed loan program is used to finance generation, transmission, and distribution facilities. Repayment of loans is secured through liens on the asset of borrowers, long-term power arrangements, and RUS oversight of borrower activities. Loan maturity dates are selected by the borrowers and generally run for the life of the facility, but no more than 35 years. The typical distribution borrower applies for a new loan about every 3 to 5 years to finance system upgrades and expansion.

Municipal rate loans are used to finance electric distribution and sub-transmission facilities. The interest rate is based on competitive rates available in the municipal bond market for similar maturities. The majority of borrowers are required to seek supplemental financing for 30 percent of their capital requirements from a private lender without a federal guarantee. Borrowers may choose from several maturities that will determine the interest rate, which changes quarterly. Certain borrowers are eligible for a capped municipal rate, which cannot exceed 7 percent. Interest rates are set when funds are actually advanced.

Hardship loans can also be used to finance electric distribution and sub-transmission facilities. These loans are made to applicants that have rates that are above state averages (rate disparity) and that serve consumers with below average per capita and household incomes. On a case by case basis, hardship loans may be offered if the RUS administrator determines that the borrower has suffered a severe, unavoidable hardship, such as a natural disaster. Hardship loans carry a statutory interest rate of 5 percent.

Treasury rate loans represent a new program authorized under the FY 2001 Agriculture Appropriations Act and are used to finance electric distribution and sub-transmission facilities. RUS administers the direct Treasury rate loan program substantially the same as it administers the municipal rate loan program, with the primary distinction being one of interest setting methodologies. Interest rates for the Treasury rate program are the prevailing cost of money to the U.S. Treasury.

Loan guarantees may be made for generation, transmission, or distribution facilities. The electric program approves guaranteed loans made through the FFB, National Rural Utilities Cooperative Finance Corporation (CFC), and the National Bank for Cooperatives (CoBank). The FFB interest rate is the prevailing cost of money to the U.S. Treasury for comparable terms, plus one-eighth of 1 percent. Interest rates for private lenders are the current competitive rate.

Telecommunications Program

The telecommunications program provides capital, establishes telecommunications standards, and provides policy guidance for rural telecommunications deployment.

The "traditional" infrastructure loan program, consisting of hardship, cost of money, rural telephone bank, and guaranteed loans provides financing for broadband and other advanced services. Since 1995, every telephone line constructed with RUS financing is capable of providing broadband service using DSL (digital subscriber loop) technology. During FY 2001, the program exhausted all available funding for these loan programs totaling $669 million to 44 borrowers.

The Distance Learning and Telemedicine program continues its charge to wire our schools and improve health care delivery in rural America. In FY 2001, nearly $27 million in grants were awarded to 46 educational and 41 health care organizations serving rural students and residents.

And, for the first time, RUS administered a pilot loan program designed specifically to increase the rate of deployment of technology to small towns in rural areas. The Broadband program was truly unique, in that it enabled RUS to step beyond its traditional definition of rural (towns of 5,000 or less), and fund borrowers serving communities of up to 20,000 inhabitants. The $100 million in loans designated for this pilot program was used in its entirety. In fact, due to the enormous popularity of this program, RUS had over $400 million in applications that could not be funded because of the lack of funds.

Performance Indicators	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Leverage private funds in rural telecommunications infrastructure for every $1 of RUS telecommunications program loan advances	$2.61	$5.70	$5.00
Number of rural residences and businesses receiving improved telecommunication service	275,196	315,308	270,000
Number of schools provided with financing for distance learning facilities	46 (277 learning facilities)	46 (590 learning facilities)	2,545 learning facilities

Today's information age-it can be argued-is now enabling us to repay rural America for its hard work, drive, and devotion to making this the most prosperous nation in the world.

Many challenges face rural students, residents, and businesses. Children growing up on our farms and in our rural towns are entitled to the best education our nation can provide. Our rural citizens should not have to endure inadequate health care that diminishes the quality or length of their lives. And our rural economies must be strengthened given the tools to prosper. With today's technology, we can regenerate the opportunities that were once abundant in our rural communities. We can provide the ill with life-saving treatment. And our rural students can compete on, not just a national level, but a worldwide level of high achievement. The same spirit and drive of those living in rural America that started our national odyssey will serve as the backbone of rural America's "new beginning" in today's digital odyssey.

Water and Environmental Program

Water and environmental loans and grants are provided to rural communities for the development, replacement, or upgrading of water and environmental facilities. Direct water and environmental loans are repayable up to 40 years. Water and environmental borrowers have received a total of $26 billion in direct loans, loan guarantees, and grants as of September 30, 2001. During FY 2001, $789 million in direct loans, $5.3 million in loan guarantees, and $588 million in grants were approved.

One of the objectives in the mission area's long-range plan is the intent to direct resources to those communities and customers with the greatest need. This includes areas that have been consistently poor, have high unemployment rates, have out-migration, have experienced natural disasters, or experienced economic stress due to Federal action. A couple performance indicators relating to this objective are reflected below. RUS moved closer to their goals this fiscal year.

Key Performance Measures	Actual FY 2000	Actual FY 2001	GPRA Goal By 2005
Number of projects located in persistent poverty rural counties that received financial assistance to establish or improve a system for drinking water or waste disposal.	219	236	278
Provide financial assistance for water and waste systems in the 700 counties with persistently declining populations.	180	197	179

Future Opportunities And Challenges

Rural Development is subject to many of the changes occurring in society as a whole. These changes will potentially impact Rural Development programs and its operations. The opportunities and challenges resulting from these changes are summarized into the following areas:

Technology

Nearly every aspect of American life is being impacted by rapid changes in technology. As electronic access increases in rural areas, and rural residents become comfortable with using it, there will be increased demand by our customers for the ability to file and update documents and transmit loan payments electronically. This demand will impact Rural Development's future policies and regulations, automated systems, and organizational structure.

Market Globalization

The advent of electronic commerce offers 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. Electronic commerce eliminates those factors, such as geographical distance and a small customer base, which have historically limited the growth of rural businesses and communities. A potential impact of electronic commerce is the growth of rural communities and expansion of the demand for Rural Development programs.

Diversity

The racial and ethnic backgrounds of our rural customers and our employees will continue to become more diverse. Rural Development has given priority in recent years to ensuring all customers and employees are treated with dignity and respect. This priority must continue if Rural Development is to ensure its programs are delivered equitably and its workforce recognizes the value of a diverse staff.

Highlights of Rural Development's Financial Position

The accompanying financial statements include the combined financial information for rural housing, rural utilities and rural business and 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 by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Controls

The purpose of the Federal Managers' Financial Integrity Act 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 2001, Rural Development is reporting three open material weaknesses. The weaknesses are related to: (1) lack of an effective system of controls over Government Performance and Results Act reporting; (2) lack of adequate oversight and internal controls which has led to abuse by Multi-Family Housing program participants; and (3) unfamiliarity of Rural Business Service program borrowers and lenders with the Civil Rights regulations they are to comply with as federally-assisted recipients.

Since the major portion of the corrective actions are in place for the above weaknesses, the impact on Rural Development operations and the public is reduced to the extent that these material weaknesses are not sufficiently serious to prevent Rural Development from providing reasonable assurance that the mission area complies with Section 2 of the FMFIA.

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 fiscal year 2001, we report that our financial management/accounting systems do not comply with Office of Management and Budget (OMB) Circular A-127, Financial Management Systems, requirements. The following is the basis for that conclusion: systems for servicing the RUS electric and telecommunication direct loan portfolio do not comply with OMB Circular A-127 as they are inefficient, labor intensive, and lack automated controls; all financial management systems have not been certified in compliance with OMB Circular A-130, Management of Federal Information Resources; and development of the Credit Reform subsidy models to estimate and re-estimate the cost of the direct single family housing and multi-family housing loan programs has not been completed.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2001 AND 2000
(In Dollars)

ASSETS (Note 2)

	2001	2000
Intragovernmental:		
Funds Balance with Treasury (Note 3)	$ 8,207,356,060	$ 7,369,857,435
Accounts Receivable (Note 4)	40,764,682	50,739,358
Total Intragovernmental	$ 8,248,120,742	7,420,596,793
Cash and Other Monetary Assets (Note 2)	61,496,719	51,384,783
Accounts Receivable, Net (Note 4)	642,047	179,986
Loans Receivable and Related Foreclosed Property, Net (Note 5)	59,030,322,442	57,958,264,289
General Property, Plant and Equipment, Net (Note 6)	15,615,543	1,637,179
Other (Note 7)	36,860,197	36,756,235
Total Assets	$ 67,393,057,690	$ 65,468,819,265

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2001 AND 2000
(In Dollars)

LIABILITIES (Note 8)

	2001	2000
Intragovernmental:		
Accounts Payable	$ 64,400,803	$ 64,599,507
Interest Payable (Note 9)	563,533,966	752,571,294
Debt (Note 9)	50,306,675,447	50,670,130,875
Resources Payable to Treasury (Note 1Q)	9,119,482,855	7,581,286,971
Accrued Federal Employees Compensation Act Bills (Note 8)	311,827	5,237,279
Other (Note 11)	200,907,477	9,360,701
Total Intragovernmental	60,255,312,375	59,083,186,627
Accounts Payable	90,605,485	2,475,539
Interest Payable	59,463	624,145
Loan Guarantee Liability (Note 5)	612,375,211	595,142,443
Debt Held by the Public (Note 9)	87,250,833	90,363,072
Stock Payable to RTB Borrowers (Note 10)	1,267,312,019	1,062,883,719
Annual Leave (Note 8)	69,029,010	31,352,658
Federal Employees Compensation Act Liability (Note 8)	4,961,577	36,694,362
Other (Note 8 & 11)	180,370,735	131,022,822
Total Liabilities	$ 62,567,276,708	$ 61,033,745,387

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2001 AND 2000
(In Dollars)

NET POSITION

	2001	2000
Unexpended Appropriations (Note 13)	$ 5,255,556,859	$ 4,774,700,763
Cumulative Results of Operations	(429,775,877)	(339,626,885)
Total Net Position	4,825,780,982	4,435,073,878
Total Liabilities and Net Position	$ 67,393,057,690	$ 65,468,819,265

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATING STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(In Dollars)

Costs: (Note 14)

Program Costs:

	2001	2000
Intragovernmental	$ 3,695,558,708	$ 3,871,895,660
With the Public:		
Grants and Transfers:		
Grants and Payments	1,354,148,361	1,130,749,183
Indemnities	462,961	
Loan Subsidy Costs	770,170,162	631,769,816
Other Program Costs	1,029,044,834	(1,018,526,594)
Total Program Costs	6,849,385,026	4,615,888,065
Less: Earned Revenues (Note 15)	(4,587,741,383)	(4,540,866,368)
Excess Production Costs Over Revenues	2,261,643,643	75,021,697
Net Program Costs	2,261,643,643	75,021,697
Costs Not Assigned to Programs	0	12,323,000
NET COST OF OPERATIONS	$ 2,261,643,643	$ 87,344,697

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(In Dollars)

	2001	2000
Net Cost of Operations (Note 14)	$ (2,261,643,643)	$ (87,344,697)
Financing Sources (other than exchange revenues):		
Appropriations Used	3,437,046,109	2,332,133,477
Taxes (and Other Non-Exchange Revenues)	1,218	0
Donations (Non-Exchange Revenue)	134,148	0
Imputed Financing	79,361,194	73,838,556
Transfer-in	998,640	0
Transfers-out	(775,871,693)	(30,332,944)
Other Financing Sources	11,953	223,707
Net Results of Operations	480,037,926	2,288,518,099
Net Results Not Affecting Net Position	(570,201,751)	(2,314,445,936)
Prior Period Adjustments (Note 16)	0	(3,187,022)
Net Change in Cumulative Results of Operations	(90,163,825)	(29,114,859)
Increase (Decrease) in Unexpended Appropriations	480,915,806	15,243,546
Change in Net Position	390,751,981	(13,871,313)
Net Position-Beginning of Period	4,435,029,001	4,448,945,191
NET POSITION-END OF PERIOD	$ 4,825,780,982	$ 4,435,073,878

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF
BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(In Dollars)

Budgetary Resources	**2001**	**2000**
Budget Authority	$ 10,980,047,800	$ 8,076,937,025
Unobligated Balances – Beginning of Period	1,319,554,188	1,202,716,630
Spending Authority from Offsetting Collections	9,526,292,376	8,547,603,972
Adjustments	(4,750,564,040)	(4,475,688,310)
Total Budgetary Resources	$ 17,075,330,324	$ 13,351,569,317
Status of Budgetary Resources		
Obligated Incurred	$ 15,246,565,609	$ 12,030,002,011
Unobligated Balances – Available	632,904,678	406,919,174
Unobligated Balances – Not Available	1,195,860,037	914,648,132
Total, Status of Budgetary Resources	$ 17,075,330,324	$ 13,351,569,317
Outlays		
Obligations Incurred	$ 15,246,565,609	$ 12,030,002,011
Less: Spending Authority from Offsetting Collections and Adjustments	(10,048,546,938)	(8,951,243,932)
Obligated Balances, Net – Beginning of Period	15,501,081,519	14,167,201,898
Less: Obligated Balances, Net – End of Period	(16,886,802,842)	(15,576,876,517)
Total Outlays	$ 3,812,297,348	$ 1,669,083,460

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(In Dollars)

	2001	2000
Resources Used to Finance Operations		
Budgetary		
Budgetary Resources Obligated for Items to Be Received or Provided to Others	$15,246,565,609	$ 12,030,002,011
Offsetting Collections, Recoveries of Prior-year Authority, Changes in Unfilled Customer Orders	(10,048,546,938)	(8,951,243,932)
Net Budgetary Resources Used to Finance Operations	5,198,018,671	3,078,758,079
Non-budgetary		
Property Received from Others Without Reimbursement	998,640	-
Property Given to Others Without Reimbursement	(998,640)	-
Costs Incurred by Others Without Reimbursement	79,361,194	73,838,556
Other Non-budgetary Resources	-	1,848
Net Non-budgetary Resources Used to Finance Operations	79,361,194	73,840,404
Total Resources Used to Finance Operations	$ 5,277,379,865	$ 3,152,598,483
Resources Used to Fund Items Not Part of the Net Cost of Operations		
(Increase) or Decrease in Budgetary Resources Obligated to Order Goods or Services Not Yet Received or Benefits Not Yet Provided	$ 2,044,130,540	$ 1,793,536,791
Budgetary Offsetting Collections Not Increasing Earned Revenue or Decreasing Expense	(5,362,148,129)	(4,588,527,428)
Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations	5,258,471,993	3,609,034,553
Resources Funding Expenses Recognized in Prior Periods	220,091,913	(18,306,802)

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(In Dollars)

	2001	2000
Resources Financing the Acquisition of Assets or Liquidation of Liabilities	(13,979,001)	(11,291,598)
Other Resources Used to Fund Items Not Part of the Net Cost of Operations**(Note 18)**	25,735,197	-
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	$ 2,172,302,513	$ 784,445,516
Resources Used to Finance the Net Cost of Operations	$ 3,105,077,352	$ 2,368,152,967
Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period		
Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocations of Their Cost over Time	$ (1,245,624,705)	$ (2,558,930,664)
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods	379,832,864	278,122,394
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period**(Note 18)**	22,358,132	-
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	$ (843,433,709)	$ (2,280,808,270)
NET COST OF OPERATIONS	$ 2,261,643,643	$ 87,344,697

The accompanying notes are an integral part of these statements.

RURAL DEVELOPMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2001

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 USDA Rural Development mission area, as required by the Chief Financial Officers Act of 1990. The financial statements have been prepared from the books and records in accordance with the Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*, and subsequent issuances, and the accounting policies which are summarized in this note. These statements are, therefore, different from the financial reports, also prepared pursuant to OMB directives, that are used to monitor and control the use of budgetary resources.

B. Reporting Entity

As of September 30, 2001, the mission area provides credit for housing, rural development, and rural utilities within the U.S. Department of Agriculture (USDA). When it began in 1935, under the name of the Resettlement Administration, the Agency's original function was to make loans and grants to depression-stricken families and help them regain self-sufficiency in making their living on family farms. In 1937, the Farm Security Administration (FSA) was created as successor to the Resettlement Administration. Its primary responsibilities were to make farm rehabilitation and farm ownership loans to farmers unable to borrow from usual sources of credit.

In 1946, Congress passed the Farmers Home Administration Act and the name "FHA" was adopted. The Act gave FHA the authority to administer farm ownership loans, farm operating loans, a limited water facilities loan program, and the emergency crop and feed loan program. FHA was also authorized to insure and guarantee loans made by banks, other agencies, private citizens, as well as to make direct Government loans.

During the 1960's, pursuant to the Housing Act of 1949, FHA was given the authority to administer direct and insured loans to repair or purchase new or existing housing to very low-income and low income rural residents who could not obtain credit elsewhere. These loans provided rural residents with modest, safe, and sanitary single family dwellings at affordable rates and terms. In addition, FHA was granted authority to administer rental and cooperative housing loans, farm labor housing loans, and rural housing site loans to rural areas.

The agency was commonly known as "FHA" until April 1974 when USDA formally adopted "FmHA" as the agency's abbreviation. This was done to easily distinguish Farmers Home Administration from other agencies have the same initials, such as the Federal Housing Administration and Federal Highway Administration.

The Rural Electrification Administration (REA) was established under the Rural Electrification Act of 1936 as a credit agency within the USDA which assisted rural electric and telephone utilities in obtaining the financing required to provide electric and telephone service in rural areas.

In 1971, the Rural Telephone Bank (RTB) was established within REA to provide a supplemental source of financing for rural telephone systems. In 1987, the program was further expanded to provide zero-interest loans and grants to its borrowers for the purpose of rural development.

In 1992, the Rural Development Agency (RDA) was established by the Food, Agriculture, Conservation and Trade (FACT) Act. RDA was a separate agency within the Department of Agriculture which provided funding for loans, grants, and loan guarantees for community development in rural areas. The Health and Human Services Act of 1986 authorized further rural development lending by instituting the Intermediary Relending Program. Under this program, RDA provided loans to public or private nonprofit organizations for the purpose of relending for business or community development in rural areas.

On October 13, 1994, the President signed the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354. The law permits the reorganization of the Department, including the establishment of subcabinet position, the restructuring of headquarters agencies and offices, continued reductions in the number of USDA personnel, and consolidation and closure of field office locations. This streamlining of the Department will permit USDA to deliver programs and services to the public in an efficient and cost-effective manner.

The Secretary of Agriculture abolished the position of Under Secretary of Agriculture for Small Community and Rural Development and the agencies of FmHA, RDA, and REA. At the same time, all activities related to farm loans were transferred to the Farm Service Agency. Of the subcabinet positions ordered by the Secretary, the Under Secretary of Agriculture for Rural Economic and Community Development was established. This name was later shortened to ***Rural Development*** during Fiscal Year (FY) 1996. The following is a description of the services and activities over which the mission area has jurisdiction:

Rural Housing Service (RHS)
RHS is responsible for housing loan programs and grants formerly performed by FmHA and rural community facility loan programs formerly performed by RDA. Other related functions include hazard waste management allocated grants and the salaries and expenses account.

Rural Utilities Service (RUS)
RUS is responsible for electric and telephone loan programs, Rural Telephone Bank activities, and distance learning and medical link grants formerly performed by REA. RUS is also responsible for rural water and waste disposal loans and grants and other grants which include solid waste management and emergency community water assistance formerly performed by RDA. Other related functions include the Appalachian Regional Commission and Economic Development Administration allocated grants and the salaries and expenses account.

Rural Business – Cooperative Service (RBS)
RBS is responsible for business and industry loan programs, assistance programs for cooperatives, and activities of the Agricultural Cooperative Service, all of which were formerly performed by RDA. RBS is also responsible for rural economic development loans and grants formerly performed by REA. Other related functions include rural business enterprise and rural technology and cooperative development grants, and the salaries and expenses account.

The mission area is responsible for 101 accounting entities of various compositions and sizes which are used to make various loans and grants. As of September 30, 2001and 2000, loan and grant obligations in the amount of $11.1 and $10.0 billion were incurred, respectively.

C. Budgets and Budgetary Accounting

The Federal Credit Reform Act of 1990 contained in the Omnibus Budget Reconciliation Act of 1990 requires substantial changes to the accounting system and in budget presentation for the loan programs previously under the ten revolving/credit funds. The ten funds are: (1) Rural Housing Insurance Fund, (2) Rural Water and Waste Disposal Loan Fund, (3) Rural Business and Industry Loan Fund, (4) Rural Community Facility Loan Fund, (5) Rural Development Insurance Fund, (6) Rural Development Loan Fund, (7) Rural Electrification and Telephone Revolving Fund, (8) Rural Communications Development Fund, (9) Rural Economic Development Subaccount, and (10) Rural Telephone Bank. The loan portfolio created in these funds prior to FY 1992 is maintained in the liquidating accounts. While no new loans or administrative expenses can be charged to the liquidating accounts, it represents the largest portion of the loan portfolio. Three additional accounts were created to cover loans made in FY 1992 and thereafter, as follows:

- The program account represents all subsidy costs and administrative expenses related to direct and guaranteed loan commitments made after FY 1991. Subsidy costs reflect the cost to the government for the credit program on and net present value basis. Administrative expenses are not included in the subsidy cost. The program account receives a current definite appropriation authority for obligations of subsidy payments and administrative expenses, and a permanent indefinite appropriation authority for reestimates of subsidy.

- The direct loan financing account records the obligations and cash flows associated with direct loan obligations made after FY 1991. Annually, Congress adopts an appropriation bill limiting the dollar amount of obligations for new loan making. New loans are also limited by a corresponding apportioned program subsidy. The direct loan financing account's loan disbursements are financed through subsidies received from the program accounts and Treasury borrowings. However, the total disbursements and cannot exceed the appropriated amount, as previously allowed under revolving accounts.

- The guaranteed loan financing account records the cash flows associated with guaranteed loan commitments made after FY 1991. Congress' annual appropriation bill limiting guaranteed loan commitments and their corresponding apportioned program subsidies serve to limit the dollar amount of obligations for new guaranteed loan commitments. Tracked cash flows include payments of default claims, receipts of fees on guaranteed loan commitments, collections on defaulted guaranteed loans and subsidy payments, and the reserve maintained to cover default payments. The disbursements for defaulted loans from the guaranteed financing account are financed through subsidies received from the program accounts, interest earned on the subsidy, and Treasury borrowings.

D. Basis of Accounting

Aided by studies and recommendations from the Financial Accounting Standards Advisory Board (FASAB), the Director of OMB and the Comptroller General published specific standards which constitute generally accepted accounting principles for the Federal Government and its component entities. This comprehensive set of accounting principles and standards must be followed by Federal entities. For those transactions deemed not addressed by FASAB pronouncements, accounting principles and standards published by authoritative standard-setting bodies and other authoritative sources shall be considered, depending upon their relevance in a particular set of circumstances.

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.

During FY 2001, two new Statements of Federal Financial Accounting Standards (SFFAS) were implemented. First, was SFFAS #10, Accounting for Internal Use Software. See **Note 1M** for a further explanation. Second, was SFFAS #18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees, as promulgated in SFFAS #2. Its purpose is threefold:

- Breakout subsidy reestimates between interest rate and technical/default.
- Provide for a reconciliation between beginning and ending balances of loan guarantee liability and subsidy cost allowance for direct loans in the footnotes.
- Provide disclosure and discussion for changes in program subsidy rates, expenses, and reestimates.

E. Revenues and Other Financing Sources

Revolving/Credit Funds:
Beginning in FY 1992, the Balanced Budget Act of 1990, Title XIII of the Omnibus Budget Reconciliation Act of 1990, provides Credit Reform procedures which affected the financing of the revolving funds. Under Credit Reform, an appropriation is received in the year of loan-making sufficient 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 principle 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 reimbursement for losses appropriations which provided for 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 and compensation and 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 currently while 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 ***(Note 13).***

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 Serving Center on October 1, 1996, the Rural Housing Service began collecting escrow payments (i.e., insurance and taxes) from new Single Family Housing borrowers. Existing borrowers, which were delinquent and required servicing actions, must also submit these escrow payments. These payments are deposited with the Trustee, Firstar Bank. As Trustee, they are required to invest these funds and disburse them as stipulated in the Trust Agreement. As of September 30, 2001 and 2000, the balance in this account was $61.5 and $51.4 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 11)*** lines.

H. Direct Lending Activities

Appropriated authority is received to make direct loans. These loans represent actual cash disbursements to borrowers which require repayment. Direct loans are only made if a borrower cannot secure adequate credit from other sources at reasonable rates and terms. Federal law provides for multiple servicing actions to assist financially troubled borrowers. The maintenance of detailed loan records consistent with the terms and conditions agreed upon with the borrower is required. The most significant of these actions include:

Interest Credit Program:
The interest credit program provides for contractual agreements with single family and rural rental housing borrowers to reduce the borrowers' effective interest rate to as low as 1 percent. Single family housing borrowers currently receiving interest credit will continue to receive it for the initial loan and any subsequent loan as long as they are eligible and remain on interest credit. Borrowers' incomes will be reviewed annually to determine whether eligibility for this payment subsidy is still warranted.

Payment Assistance
This is a type of payment subsidy for single family housing borrowers who have never received interest credit or who have ceased receiving interest credit and at a later date again qualify for a payment subsidy. Borrowers' incomes will be reviewed annually to determine whether eligibility for this payment subsidy is still warranted.

For fiscal years 2001 and 2000, interest credit and payment subsidy granted under this program is approximately $1.2 and $1.2 billion, respectively.

Moratorium:
A moratorium is a period of up to 2 years during which scheduled payments are deferred for payment at a later date. Borrowers may apply for a postponement of payments if, due to circumstances beyond their control, they are unable to continue making scheduled payments on the loan without unduly impairing their standard of living. As of September 30, 2001 and 2000, the number of borrowers with a moratorium in effect were 1,161 and 1,252, respectively.

Delinquency Workout Agreements:
Borrowers with past due accounts may be offered the opportunity to avoid liquidation by entering into an agreement with RHS that specifies a plan for bringing the account current. To receive a delinquency workout agreement, the following requirements apply:

- A borrower who is able to do so will be required to pay the past-due amount in a single payment.

- A borrower who is unable to pay the past-due amount in a single payment must pay monthly all scheduled payments plus an agreed upon additional amount that brings the account current within 2 years or the remaining term of the loan, whichever is shorter.

- If a borrower becomes more than 30 days past due under the terms of a delinquency workout agreement, RHS may cancel the agreement.

As of September 30, 2001 and 2000, the number of borrowers which had received delinquency workout agreements were 3,933 and 3,901, respectively.

I. Guaranteed Lending Activities

Other lending activities include the guaranteed loans for single family housing, multi-family housing, and community programs. The term "guarantee" means "to guarantee the repayment of loans originated, held, and serviced by a private financial agency or other lender approved by the Secretary of Agriculture". Rural Development provides financial assistance to borrowers by guaranteeing loans made by federal or state chartered banks, savings and loan associations, cooperative lending agencies, or approved lending institutions who perform all loan servicing activities. Generally, the guaranteed loan program allows Rural Development to guarantee up to 90 percent of the money loaned by a financial institution (lender) to borrowers in rural areas or to businesses who employ people in rural areas.

Some guaranteed loans may be sold in the secondary market by the lender to an institution (referred to as a holder). However, all servicing responsibilities remain with the lender. Payments by the borrower are forwarded on a pro rata basis to the holder. If the holder does not receive payments on the note within 60 days of an installment due date, the holder can demand the Rural Development purchase the holder's share of the loan. When the loan is purchased, Rural Development assumes the rights of the holder and is entitled to the pro rata share of any payments made by the borrower to the lender. All guaranteed loans which are repurchased are treated as an asset (loans receivable) in the portfolio ***(Note 5)***.

Lenders are required to inform Rural Development on the loan status of community and business program borrowers as of December 31 and June 30, and single family housing borrowers on a quarterly basis unless the loan is in default which requires more frequent reporting. If a borrower defaults on the loan, the lender is responsible for liquidating the collateral. After the proceeds of the sale have been applied to the outstanding balances, Rural Development is liable for losses under the terms of the guarantee.

Rural Development also provides financial assistance in the form of loan guarantees to rural electric and telephone utilities and cooperative and commercial borrowers for community antenna television services and facilities. However, no new financing has been provided since 1981 for the above-mentioned cooperative and commercial borrowers. Guaranteed loans are accounted for as contingent liabilities ***(Note 5)***.

J. Credit Program Receivables and Related Foreclosure Property Net

Loans are accounted for as receivables after funds have been disbursed. They are carried at their principal amount outstanding ***(Note 5)***, and accrue interest daily 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.

Direct loans obligated prior to October 1, 1991, are reported at the present value of future cash flows. The provision calculation is based upon these projected cash flows discounted at the weighted-average rate of outstanding Treasury and Federal Financing Bank borrowings made prior to fiscal year 1992.

The liability for loan guarantees and for guaranteed loans obligated prior to October 1, 1991, are reported at the present value of future cash flows. The provision calculation is based upon these future cash flows (i.e., expectations of loan losses and an estimate of interest assistance payments to be made on guaranteed loans) discounted at the average interest rate of U.S. Treasury interest-bearing debt. The estimates is reported as an expense, and a corresponding accrual for estimated losses on loan guarantees is reported as a liability on the Consolidated Balance Sheet.

The projected cost of direct loan and guaranteed loan defaults (for loans obligated prior to October 1, 1991) will not necessarily reflect Rural Development's future appropriation requests. To the extent that revolving fund revenues are not sufficient to fund future costs, financing will have to be obtained from future appropriations, or other congressionally approved sources. For direct loans obligated on or after October 1, 1991, Rural Development recognizes these as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance. For guaranteed loans obligated on or after October 1, 1991, the present value of estimated net cash outflows of the loan guarantees is recognized as a liability. However, this liability is recognized at the time of obligation rather than at the time of loan disbursement as required by accounting standards.

K. Investments

In fiscal year 1987, a loan asset sale was conducted as required in the Omnibus Budget Reconciliation Act of 1986. As a result of these sales, residual investments were maintained in the securities. A description of these investments is included in ***Note*** *7*.

L. Property, Plant and Equipment (P, P&E)

The land, buildings, and equipment in the current operating environment is 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. See **Note 6** for the capitalization thresholds of the various classes of P, P&E.

M. Internal Use Software

Internal Use Software is classified as "general property, plant and equipment" as defined in the Statement of Federal Financial Accounting Standard (SFFAS) #6, Accounting for Property, Plant and Equipment. See **Note 6** for further information.

Costs of internal use software are accounted for in accordance with SFFAS #10, Accounting for Internal Use Software. The effective date of SFFAS #10 is fiscal year 2001. SFFAS #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.

SFFAS #10 provides for the capitalization of costs incurred during the software development phase and the expensing of costs incurred during the preliminary design and post-implementation/operational phases for software having a useful life of at least 2-years. The capitalization threshold is $100,000.00.

Costs incurred prior to the initial application of this Standard, whether or not capitalized, should not be adjusted to the amounts that would have been capitalized, had this Standard been in effect when those costs were incurred.

N. 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.

O. Borrowings/Interest Payable to the Treasury

Borrowings payable to the 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 for the revolving funds. These revolving funds make periodic principal and interest payments to Treasury in accordance with established agreements.

P. Federal Employee's Compensation Act (FECA)

This Act established the Federal Employees' Compensation Special Benefit Fund. This Fund pays for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease.

This Fund pays benefits on behalf of federal entities as costs are incurred and bills (charges back) the federal entity annually (August 15) for the costs incurred during the previous fiscal year ended June 30 (July 1 – June 30). Federal entities fund the FECA payments through appropriations or operating revenues. For appropriated funds, the payment is due at the beginning of the second fiscal year after receipt of the bill (approximately 15 months). These liabilities due to the Fund are recorded by federal entities as unfunded (if annual appropriations are used) at the time of receipt of the bill. Generally, Federal entities with no-year appropriations should recognize a funded liability and the funding availability at the time of the receipt of the chargeback from the Department of Labor (DOL).

Annually, federal entities are also allocated a portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by DOL to the federal entities by October 31 for the previous fiscal year ended September 30.

On or before August 15 of each year, DOL submits a yearly billing (chargeback) report to federal entities. The report is entitled Notification of Workers' Compensation Cost Incurred on Your Behalf (annual chargeback report) and covers the preceding July 1 through June 30 fiscal year. Additionally, each entity receives a quarterly Detailed Chargeback Report. The quarterly report provides a detailed listing of amounts paid by the FECA fund during the previous quarter.

The current year FECA expense and total liability are calculated using information contained in these reports.

Q. Resources Payable to Treasury

Prior to FY 1999, Rural Development consolidated all unobligated net resources of loans obligated prior to fiscal year 1992 as either a Receivable from Appropriations (negative equity) or Resources Payable to Treasury (positive equity). All other capital accounts were transferred to these accounts.

Beginning in FY 1999, agencies can no longer accrue a Receivable from Appropriations, as required in Statement of Federal Financial Accounting Standard #7, Accounting for Revenue and Other Financing Sources. As a result, all unobligated net resources of loans obligated prior to fiscal year 1992 are now consolidated as a negative Resources Payable to Treasury.

In FY 2000, only the Rural Telephone Bank direct loan reestimates and the Single Family Housing (SFH) and Business and Industry (B&I) guaranteed loans were calculated and included in the financial statements. FY 1999 reestimates were also recalculated for the SFH and B&I guaranteed programs and included in the FY 2000 financial statements.

For FY 2001, reestimates for all loan programs were calculated and included in the financial statements. Reestimates related to FY 1999 and 2000 were also recalculated for all loan programs except the Rural Telephone Bank Direct Loan Program and the Single Family Housing and Business and Industry Guaranteed Loan Programs and included in the financial statements.

R. 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.

S. Intragovernmental Financial Activities

The Rural Development mission areas is an integral part of the operations of the U.S. Department of Agriculture (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.

Beginning in fiscal year 1998, 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 n 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 majority of employees participate in the Civil Service Retirement System (CSRS), to which Rural Development makes matching contributions equal to 7 percent of pay. Rural Development does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting of such amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the agencies automatically contribute 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay.

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

T. New Administrative Accounting System

Beginning in fiscal year 2001, Rural Development is implementing a new administrative accounting system to replace the Central Accounting System (CAS). This new USDA administrative system, the Foundation Financial Information System (FFIS), is a commercial off-the-shelf fully integrated financial software package designed to meet stringent budget and funds control needs, as well as complex multi-fund accounting and reporting needs.

NOTE 2: NON-ENTITY ASSETS

Amounts are presented in dollars.

	2001	2000
Intragovernmental:		
Fund Balance with Treasury	$ 5,598	$ 393
Accounts Receivable	35,895	1,415
Total Intragovernmental	41,493	1,808
Cash and Other Monetary Assets	61,496,719	51,384,783
Accounts Receivable	0	35,970
Total Non-Entity Assets	61,538,212	51,422,561
Total Entity Assets	67,331,519,478	65,417,396,704
Total Assets	$ 67,393,057,690	$ 65,468,819,265

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 dollars.

2001

	Obligated	Unobligated		Total
		Available	Expired Authority	
Revolving Funds	$ 1,510,472,780	$ 1,333,414,065	$ 0	$ 2,843,886,845
Appropriated Funds	5,090,810,161	180,206,929	104,899,306	5,375,916,396
Other Funds	0	0	(12,447,181)	(12,447,181)
Total Fund Balance with Treasury	$ 6,601,282,941	$ 1,513,620,994	$ 92,452,125	$ 8,207,356,060

2000

	Obligated	Unobligated		Total
		Available	Expired Authority	
Revolving Funds	$ 1,641,310,170	$ 935,135,356	$ 0	$ 2,576,445,526
Appropriated Funds	4,582,002,543	163,258,651	48,150,715	4,793,411,909
Total Fund Balance with Treasury	$ 6,223,312,713	$ 1,098,394,007	$ 48,150,715	$ 7,369,857,435

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

During FY 2000, a major effort was undertaken by USDA to develop, document and implement a sustainable cash reconciliation process. USDA established a project team, consisting of USDA employees and members of a national public accounting firm, at the National Finance Center. Through an extensive reconciliation effort, the team identified approximately $60 million of historic (FY 1999 and prior) reporting differences with Treasury. The Department, Treasury and the Office of Management and Budget (OMB) agreed upon an adjustment methodology for resolving these reporting differences. The agreement allows the summary adjustment of these reporting differences to zero against closed administrative appropriations for FY's 1993, 1994 and 1995. This was accomplished during FY 2001, and Rural Development expired funds were used for this adjustment; however, there was no impact on the financial statements.

Note 4: ACCOUNTS RECEIVABLE

Amounts are presented in dollars.

	2001	2000
Intragovernmental		
Salaries and Expense	$ 40,764,682	$ 50,739,358
Total	40,764,682	50,739,358
With the Public		
Salaries and Expense	642,047	179,986
Total	642,047	179,986
Total Accounts Receivable	$ 41,406,729	$ 50,919,344

At this time, the establishment of an allowance for uncollectible amounts is deemed unnecessary.

NOTE 5: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

The following section describes the direct loan and loan guarantee programs and their characteristics which are administered by Rural Development.

Rural Development

Each year, USDA Rural Development programs create or preserve tens of thousands of rural jobs and create or improve the quality of rural housing. To leverage the impact of its programs, USDA Rural Development is working with state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives. Rural Development programs are administered through three services: the Rural Housing Service (RHS), the Rural Utilities Service (RUS), and the Rural Business-Cooperative Service (RBS). Following are overviews of each of the three services and their programs.

Rural Housing Service (RHS)

Through its loan and grant programs, RHS provides affordable housing and essential community facilities to rural communities. RHS programs help finance new or improved housing for moderate-, low-, and very low-income families each year. No rural community can thrive without adequate community facilities, so RHS programs also help rural communities finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities. Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RHS.

Home Ownership Direct Loans

Purpose: Home ownership loans are available to purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. For direct loans, RHS can provide up to 100% of the financing to the borrower.

Eligibility: Applicants for home ownership loans must have very low- or low-incomes. Very low-income is defined as below 50% of the area median income and low income is between 50 and 80% of area median income. Applicants must be without adequate housing, but be able to afford mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories.

Servicing options: Payment assistance is available to eligible borrowers to reduce the effective interest rate of the loan to as low as 1%. A borrower's eligibility for payment assistance is based on the amount of their adjusted gross income that is used to pay the principal, interest, taxes, and insurance on their home. Borrowers who have difficulty keeping their accounts current may also be eligible for one or more available servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums for up to 2 years, and reamortization of the loan.

Home Ownership Guaranteed Loans

Purpose: Home ownership guaranteed loans are primarily used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. The program guarantees loans made by private lenders. The maximum amount of the loan guarantee is 90% of the principal amount of the loan.

Eligibility: Applicants for loans may have an income of up to 115% of the median income for the area in which they reside. Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere without a guarantee, yet have reasonable credit histories.

RHS can guarantee loans to approved lenders such as State housing agencies; Housing and Urban Development, U.S. Veterans Administration, Fannie Mae, Freddie Mac, or Farm Credit System approved lenders; and any lender participating in other USDA Rural Development and/or Consolidated Farm Service Agency guaranteed loan programs.

The lender pays a nonrefundable guarantee fee equal to 2% of the loan amount. This fee may be passed on to the borrower.

Servicing options: The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans. Loans guaranteed may be sold to entities which meet the required lender eligibility qualifications.

If the lender concludes the liquidation of a guaranteed loan account is necessary because of default or actions that the borrower cannot or will not cure or eliminate within a reasonable period of time, the lender will notify RHS of the decision to liquidate.

Home Improvement and Repair Direct Loans

Purpose: Home improvement and repair loans are available to very low-income homeowners to repair, improve, or modernize their dwellings or to remove health and safety hazards.

Eligibility: To obtain a loan, homeowner-occupants must be unable to obtain affordable credit elsewhere and must have very low incomes, defined as below 50% of the area median income.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for servicing options that include delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan

Home Ownership and Home Improvement and Repair Direct Loans – Nonprogram Loans

Purpose: Loans on nonprogram terms may be offered to expedite sale of property in Rural Development's inventory. Loan funds may be used to assume an existing program loan on new rates and terms, convert a program loan that has received unauthorized assistance, or continue a loan on a portion of a security property when the remainder is being transferred and the RHS debt is not paid in full.

Eligibility: Nonprogram terms may be extended in nontypical cases to applicants who do not qualify for program credit, or for properties that do not qualify as program properties when it is in the best interest of the government.

Servicing options: Nonprogram loans are serviced according to the requirements for program loans except that nonprogram borrowers are not eligible for payment assistance or a moratorium.

Rural Housing Site Direct Loans

Purpose: Rural housing site loans are made to assist public or private nonprofit organizations purchase and develop housing sites for low- and moderate-income families. Section 523 rural housing site loans are made to acquire and develop sites only for housing to be constructed by the self-help method. The self-help method enables groups of six to ten low-income families to build their homes by providing materials and skilled labor they cannot furnish themselves. Section 524 rural housing site loans are made to acquire and develop sites for any low- or moderate-income family.

Eligibility: Both Section 523 and 524 rural housing site loans are limited to private or public nonprofit organizations. Section 524 sites may be sold to low or moderate income families utilizing RHS or any other mortgage financing program which serves the same eligible families.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for one or more servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan.

Farm Labor Housing Direct Loans

Purpose: The farm labor housing program is designed to provide decent, safe, and sanitary housing for domestic farm labor in areas where a need for farm labor exists. These loans are used to build, buy, or repair farm labor housing in either dormitory or multi-family apartment style.

Eligibility: Loans are made to farmers, associations of farmers, family farm corporations, Indian Tribes, nonprofit organizations, public agencies, and associations of farmworkers. Typically, loan applicants are unable to obtain credit elsewhere.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for one or more servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan.

Rental assistance may be provided to eligible tenants with the objective to reduce rents paid by low-income households. RHS pays the owner of a farm labor housing complex the difference between the tenant's contribution (30% of adjusted income) and the monthly rental rate.

Rural Rental and Rural Cooperative Housing Direct Loans

Purpose: The rural rental and rural cooperative housing program allows individuals or organizations to build or rehabilitate rental units for low- and medium-income people. It also provides rental assistance for those renters who otherwise would be unable to afford to rent those units. In new housing projects, 95% of tenants must have very low incomes. In existing projects 75% of new tenants must have very low incomes.

Eligibility: Individuals, partnerships, limited partnerships, for-profit corporations, nonprofit organizations, limited equity cooperatives, Native American tribes, and public agencies are eligible to apply for rural rental housing loans. For-profit applicants must agree to operate on a limited-profit basis (currently 8% on initial investment). Applicants must be unable to obtain credit elsewhere that will allow them to charge rents affordable to low- and moderate-income tenants.

The tenants of rural rental housing units include very low-, low-, and moderate-income families; the elderly; and persons with disabilities.

Servicing options: Interest credit is available to borrowers who agree to operate on a limited profit basis. Interest credit reduces the effective interest rate of the loan to as low as 1%.

Rental assistance may be provided to eligible tenants with the objective to reduce rents paid by low-income households. RHS pays the owner of a multi-family housing complex the difference between the tenant's contribution (30% of adjusted income) and the monthly rental rate. Rental assistance is a grant program and is not included in the Credit Reform subsidy cost of the rural rental housing program.

Rental Housing Guaranteed Loans

Purpose: Loan guarantees are provided for the construction, acquisition, or rehabilitation of rural multi-family housing for very low-, low-, or moderate-income households, elderly, or disabled persons. The program guarantees loans that would not otherwise be made by private lenders. The maximum amount of loan guarantee is 90% of the principal amount of the loan.

Eligibility: An applicant for a rental housing guaranteed loan must be a for-profit corporation or a nonprofit organization such as a local government, community development group, or Federally recognized Indian tribe. Applicants must be unable to obtain credit elsewhere without the guarantee.

Eligible lenders are those currently approved and considered eligible by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank members, the Department of Housing and Urban Development, and State Housing Finance Agencies. The lender pays an initial guarantee fee equal to 1% of the guarantee amount, and an annual guarantee fee of 1/2% of the unpaid principal balance.
The tenants of rental housing units include very- low-, low- or moderate-income households, elderly, handicapped, or disabled persons with income not in excess of 115% of the area median income. Maximum rent is 30% of 115% of median income, and average rent of all units is 30% of 100% of the median income adjusted for family size.

Servicing options: For at least 20% of the loans made during each fiscal year, RHS will provide assistance in the form of interest credit, to the extent necessary to reduce the agreed-upon rate of interest to the RHS maximum rate. The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans.

Multi-Family Housing – Nonprogram Terms – Credit Sales

Purpose: These loans are for the sale of inventory property acquired through liquidation of farm labor housing, rural rental and rural cooperative housing, and rural housing site direct loans. Sales efforts will be initiated as soon as property is acquired in order to effect sale at the earliest practicable time. Nonprogram property includes rental units acquired through foreclosure that cannot be used by a borrower to effectively carry out the objectives of the respective loan program.

Eligibility: Nonprogram terms may be extended to applicants who do not qualify for program credit, or for properties that do not qualify as program properties. Preference will be given to program applicants when a property is of a nature that it will enable a qualified applicant for one of the applicable loan programs to meet the objectives of that loan program.

Servicing options: Nonprogram loans are serviced according to the requirements for program loans except nonprogram borrowers are not eligible for interest credit or a moratorium.

Community Facilities Direct Loans

Purpose: Community facility loan funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services such as hospitals, health care clinics, child care facilities, fire stations, or to refinance existing debt for eligible loan purposes in rural areas and towns of up to 20,000 in population.

Eligibility: Applicants for community facility loans must be public entities such as municipalities, counties, and special-purpose districts, or non-profit corporations and tribal governments. Applicants must have the legal authority to borrow. They must also be financially sound and able to organize and manage the facility effectively. There are three levels of interest rates available as determined by the median household income of the area being served and the type of project. The intermediate and market interest rates are adjusted quarterly.

Servicing options: Workout agreements may be implemented for delinquent loans. The total outstanding principal and interest balances may be reamortized rather than only the delinquent amount.

Community Facilities Guaranteed Loans

Purpose: Community facility guaranteed loans may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services such as hospitals, health care clinics, child care facilities, fire stations, or to refinance existing debt for eligible loan purposes in rural areas and towns of up to 20,000 in population. The program guarantees loans made by private financial institutions which would not otherwise be made without a guarantee. The maximum amount of loan guarantee is 90% of the principal amount of the loan.

Eligibility: Applicants for community facility loan guarantees include public entities such as municipalities, counties, special-purpose districts, non-profit corporations, and Federally recognized Indian tribes. Applicants must have the legal authority to borrow and be financially sound and able to organize and manage the facility effectively.

Lenders that are eligible to make community facility guaranteed loans include banks, savings and loans, mortgage companies, banks of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners.

The lender pays a nonrefundable guarantee fee equal to 1% of the loan amount. The fee may be passed on to the borrower.

Servicing options: The lender is responsible for servicing the entire loan in accordance with the lender's agreement.

RHS at a Glance

Repayment Period and Interest Rates: RHS offers loans at the following rates and terms.

Program	Repayment Period	Interest Rate
Home Ownership	• Maximum 33 years for conventional construction • Maximum 30 years for manufactured homes • Maximum 38 years for those with income below 60% of area median income	Based on current Treasury rate
Home Ownership Guaranteed	Maximum 30 years	Lender rate
Home Improvement and Repair	Maximum 20 years	1%
Home Ownership and Home Improvement Direct - Nonprogram	Maximum 30 years	1/2 of 1% higher than the full note interest rate available to program applicants
Rural Housing Site Loans	2 years	• Section 523 loans fixed at 3%

		• Section 524 loans based on current Treasury rate
Farm Labor Housing	Maximum of 33 years	1%
Rural Rental/Rural Cooperative Housing	• Prior to November 18, 1997, maximum of 50 years • On or after November 18, 1997, 50 year amortization with a 30 year repayment and final balloon payment	Based on current Treasury rate
Rental Housing Guaranteed	Maximum 40 years	Rates of the loans guaranteed must be fixed, as negotiated between lender and borrower, within the RHS maximum rate. The maximum rate is based on the 30-year Treasury Bond rate on the day prior to date of loan closing.
Multi-Family Housing - Nonprogram - Credit Sales	Maximum of 10 years	Rural Rental Housing interest rate plus 1/2%
Community Facilities	Maximum of 40 years	• The poverty rate is set at 4.5%. • The market rate is indexed to the eleventh bond buyers rate as determined by the U. S. Treasury Department. • The intermediate rate is set halfway between the market and the poverty rates. All are on a fixed basis.
Community Facilities Guaranteed	Maximum of 40 years.	The interest rate is the lender's customary interest rate for similar projects. The interest rates for guaranteed loans may be fixed or variable and are determined by the lender and borrower, subject to RHS review and approval.

Rural Business Service (RBS)

RBS's goal is to promote a dynamic business environment in rural America. RBS works 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.

The events of September 11, 2001, adversely impacted the economic structure of urban and rural America. The downturn in air travel, tourism, manufacturing, and service industries will impact rural borrowers considerably. Rural borrowers have always and will continue to be directly impacted by the uncertainty/stability of the economy. Specifics on how the downturn in the economy and the events of September 11, 2001, may impact our borrowers cannot be documented at this point. However, these events may negatively impact the repayment of outstanding loans or the losses paid on loan guarantees.

Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RBS.

Business and Industry Direct Loans

Purpose: Business and industry loans are made to public entities and private parties in rural areas to include all areas other than cities or unincorporated areas of more than 50,000 people and their immediately adjacent urban areas. Loans to private parties can be made to improve, develop, or finance businesses and industries, to create jobs, and improve the economic and environmental climate in rural communities. Loans to public bodies will only be used to finance community facilities that are designed to aid in the development of private businesses and industry, and to construct and equip industrial plants for lease to private businesses.

Eligibility: Eligible applicants include cooperatives, corporations, partnerships, trusts; Indian tribes or Federally recognized tribal groups; public bodies such as cities or counties; or individuals. Loans are available to those who cannot obtain credit elsewhere.

Servicing options: Available options to eligible borrowers include reamortization of the loan, subordination of the Agency lien position, and transfer and assumption of the loan by an eligible borrower.

Business and Industry Guaranteed Loans

Purpose: The purpose of the business and industry guaranteed program is to develop business, industry, and employment and improve the economic and environmental climate in rural communities. This includes all areas other than cities or unincorporated areas of more than 50,000 people and their immediately adjacent urban areas. Funds may be used for business and industrial acquisitions; construction, repair, or modernization; purchase of land or machinery; housing sites; processing and marketing facilities; pollution control; aquaculture; forestry; tourist and recreation facilities, educational or training facilities; and eligible community projects. The program guarantees loans made by private lenders. The percentage of guarantee is a matter of negotiation between the lender and RBS. The maximum percentage of guarantee is 80% for loans of $5 million or less, 70% for loans between $5 and $10 million, and 60% for loans exceeding $10 million.

Eligibility: Applicants for business and industry guaranteed loans must be engaged in or propose to engage in a business. Applications for assistance are accepted without regard to availability of credit from other sources. Assistance under the business and industry guaranteed loan program is available to virtually any legally organized entity, including a cooperative, corporation, partnership, trust or other profit or nonprofit entity, Federally recognized tribal group, municipality, county, or other political subdivision of a State.

Business and industry loan guarantees can be made by approved lenders in rural areas. The lender pays a nonrefundable guarantee fee equal to 2% of the amount of the guaranteed portion of the loan.

Servicing options: The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans. Loans guaranteed may be sold to entities that meet the required lender eligibility qualifications. If the lender concludes the liquidation of a guaranteed loan account is necessary because of default or actions that the borrower cannot or will not cure or eliminate within a reasonable period of time, the lender will notify RBS of the decision to liquidate.

Intermediary Relending Program Direct Loans

Purpose: The intermediary relending program finances business and community development projects through loans made by RBS to intermediaries. Intermediaries re-lend funds to third-party recipients (e.g., private or public organizations or individuals) for business facilities or community development. Intermediaries establish revolving loan funds so collections from loans made to third-party recipients in excess of necessary operating expenses and debt payments will be used for more loans to third-party recipients.

Eligibility: Intermediaries may be private non-profit corporations, public agencies, Indian groups, or cooperatives. Intermediaries must have legal authority to carry out the proposed loan purposes and to incur and repay the debt; have a record of successfully assisting rural business and industry, normally including experience in making and servicing commercial loans; and provide adequate assurance of repayment. Both intermediaries and third-party recipients must be unable to obtain the proposed loan elsewhere at reasonable rates and terms.

Servicing options: The loan agreement between the Agency and the intermediary will set out the provisions regarding default. In the event that RBS takes over the servicing of the recipient of an intermediary, those loans will be serviced in accordance with the contractual arrangement between the intermediary and the recipient.

If it is necessary for RBS to protect its interests in connection with defaults or breach of conditions under any loan made, the RBS may declare that the loan is immediately due and payable, liquidate the collateral securing the loan, or adjust interest rates or grant moratoriums on repayment of principal and interest.

Rural Economic Development Direct Loans

Purpose: Rural economic development loans are provided interest-free to electric and telephone utilities that have previously received financing from RUS. This loan program promotes rural economic development and job creation projects by providing loans to businesses or community development organizations including hospitals, advanced telecommunication facilities for medical or educational purposes, and job training.

Eligibility: Loans can be made to any RUS electric or telephone borrower that is not delinquent on Federal debt or in bankruptcy proceedings. The borrower is required to re-lend, at 0% interest, the loan proceeds to an eligible "third-party recipient" for the purpose of financing job creation projects and sustainable economic development within rural areas. Priority is given to financing third-party recipient projects that are physically located in rural areas having a population of less than 2,500 people. The borrower receiving the interest-free loan is responsible for repaying the loan to RBS in the event of delinquency or default by the third-party recipient. The borrower may charge the third-party recipient reasonable loan servicing fees, not to exceed 1% a year on the unpaid principal balance of the loan.

Servicing options: The terms of the note may include deferment of principal payments. The deferment period for an established business will be limited to 1 year; for a startup business or community infrastructure project, 2 years.

RBS at a Glance

Repayment Period and Interest Rates: RBS offers loans at the following rates and terms.

Program	Repayment Period	Interest Rate
Business and Industry	Maximum of 40 years	Equal to the Wall Street Journal prime rate
Business and Industry Guaranteed	Maximum of 30 years - Real Estate Maximum of 15 years - Machinery Maximum of 7 years - Working Capital	Negotiated between the borrower and the lender and may be fixed or variable
Intermediary Relending	• Loans to intermediaries are scheduled for repayment over a period of up to 30 years. • The term of loans from intermediaries to third party recipients is set by the intermediary.	• The interest rate on loans to intermediaries is 1% per annum. • The interest rate charged to third party recipients is negotiated by the intermediary and the recipient.
Rural Economic Development	Maximum of 10 years	0%

Rural Utilities Service (RUS)

The RUS helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. RUS programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources. Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RUS.

Water and Environmental Direct Loans

Purpose: Water and environmental loans are made for the construction and improvement of water and environmental systems in rural areas and to cities and towns with a population of 10,000 or less. Loan funds may be used to construct, enlarge, extend, or improve rural drinking water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities.

Eligibility: Funds are available to public entities such as municipalities, counties, special-purpose districts, and Federally recognized Indian tribes. In addition, funds may be made available to corporations operated on a not-for-profit basis. Applicants must be unable to obtain funds from other sources at reasonable rates and terms. There are three levels of interest rates available as determined by the primary purpose of the loan and the median household income of the area being served. The rates are adjusted quarterly.

Servicing options: Principal payments may be deferred in whole or in part for a period not to exceed 36 months following the date the first interest installment is due. In the event the borrower has difficulty repaying, loans may be reamortized. Loans may be transferred to eligible transferees at different rates and terms.

Water and Environmental Guaranteed Loans

Purpose: Guaranteed water and environmental loans are used to provide for the construction or improvement of water and environmental systems serving the financially needy communities in rural areas. Loan funds may be used to construct, enlarge, extend, or otherwise improve rural drinking water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities. The program guarantees loans made by private lenders. The maximum amount of guarantee is 90% of the principal loan amount.

Eligibility: Public bodies (i.e., municipality, county, district, authority, or other political subdivision of a State), not-for-profit organizations, or Federally recognized Indian tribes located in rural areas are eligible for RUS water and environmental loans. The applicant must be unable to obtain the required credit from private, commercial, or cooperative sources at reasonable rates and terms without the loan guarantee from RUS.

Lenders eligible to make guaranteed water and environmental loans include Federal or State chartered bank or savings and loan association; mortgage companies that are part of a bank holding company; Co-Bank, National Rural Utilities Cooperative Finance Corporation, Farm Credit Bank of the Federal Land Bank, or other Farm Credit System institution with direct lending authority; an insurance company regulated by a State or National insurance regulatory agency; and other lenders that possess the legal powers necessary and incidental to making and servicing guaranteed loans.

Servicing options: The lender is responsible for servicing the loan in accordance with the lender's agreement.

Electric Direct Loans

Purpose: Electric loans are made to finance the construction of electric distribution, transmission and generation facilities including system improvements and replacements required to furnish and improve electric service in rural areas.

Eligibility: Corporations, states, territories, municipalities; people's utility districts; and cooperative, nonprofit, limited-dividend, or mutual associations that provide or propose to provide retail electric service or power supply needs of distribution borrowers servicing rural areas are eligible for financing under RUS electric programs. Direct hardship loans are made to applicants that meet rate disparity thresholds and whose consumers fall below average per capita and household income thresholds. Borrowers not eligible for hardship loans are eligible for municipal rate loans.

For municipal rate loans, the borrower may select an interest rate term for each advance of funds. The borrower may elect to lock in at the 20-year interest rate term through the maturity of the loan, or select a shorter-term rate. Municipal interest rates are based on the interest rate terms published in the Bond Buyers Guide. The minimum interest rate term is 1 year. At the end of the interest rate term, the borrower may roll over the remaining principal for a new short-term rate or the remaining period to final maturity.

For fiscal year 2001, qualifying applications for direct municipal rate electric loans received by RUS before October 28, 2000, were treated as preapplications for direct Treasury rate loans. Applicants were offered the opportunity to select the Treasury rate in lieu of the municipal rate. Selection of interest rate terms will be made by the borrower for each advance of funds. Interest rate terms are limited to terms published by the Treasury for 1, 2, 3, 5, 7, 10, 20, and 30 year maturities. The borrower may elect to lock in at the 30-year interest rate term through the maturity of the loan, or select a shorter-term rate. At the end of the interest rate term, the borrower may roll over the remaining principal for a new short-term rate or the remaining period to final maturity. Borrowers are required to seek supplemental financing for 30% of their capital requirements under this program.

Servicing options: There may be loan deferments of principal and interest payments on loans made for electric purposes. For the electric program, deferment in essence is a reamortization of a payment of principal and/or interest on the loan for either a 5- or 10-year period, with the first payment beginning on the date of the deferment. Borrowers who are not in compliance with their mortgage or loan contract may restructure or reduce the amount of their investments and loans to a level determined by RUS. Borrowers may prepay notes at the discounted present value of the RUS notes with private financing.

Electric Guaranteed Loans

Purpose: Sections 305 and 306 of the Rural Electrification Act authorizes the RUS to offer 100% guarantees of loans made to qualified electric borrowers. Guaranteed electric loans are made to finance the construction and improvement of electric generation, transmission, and distribution facilities.

Eligibility: Corporations, states, territories, municipalities, people's utility districts, and cooperatives that provide or propose to provide retail electric service or power supply to rural areas may receive loans guaranteed by RUS.

The only lenders that are eligible to make loans guaranteed by RUS are the Federal Financing Bank (FFB) which is an instrumentality of the U. S. Department of Treasury, National Bank for Cooperatives (NBC), and the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

Servicing options: RUS services the FFB loans. For each advance of funds received the borrower elects the prepayment/refinancing options. The premium for prepayment or refinancing varies, depending on the option chosen. If the borrower elects a 5-year no-call period, the advance may not be prepaid or refinanced until after 5th anniversary of the advance date. If the borrower elects not to include a 5-year no-call period, the advance may be prepaid or refinanced at any time.

Telecommunications Direct Loans

Purpose: RUS makes hardship and cost-of-money (Treasury) loans to finance the improvement, expansion, construction and acquisition of systems or facilities that improve telephone service in rural areas. RUS also makes concurrent cost-of-money and Rural Telephone Bank (RTB) loans. Hardship loans may be made simultaneously with concurrent cost-of-money and RTB loans.

Eligibility: Entities or public bodies providing telephone service in rural areas; cooperatives, nonprofit, limited dividend or mutual associations are eligible to participate in the RUS telecommunication program. To be eligible for a loan, a borrower must be incorporated and provide or propose to provide the basic local exchange telephone service needs of rural areas. Hardship loans may be made when the average number of proposed subscibers per mile of line is not more than 4, or the borrower has a projected Times Interest Earned Ratio (borrowers net income after taxes plus interest expense, all divided by interest expense) of at least 1.0 but not greater than 3.0

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

Rural Telephone Bank

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

RTB loans are made concurrently with RUS cost-of-money loans to finance the improvement, expansion, construction, and acquisition of systems or facilities that improve telephone service in rural areas. However, RTB does not finance station apparatus owned by the borrower, headquarters facilities, and vehicles not used primarily in construction.

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

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

Federal Financing Bank - Telecommunications Guaranteed

Purpose: Loan guarantees are made to finance the improvement, expansion, construction, and acquisition of facilities that improve telephone services in rural areas. Section 306 of the Rural Electrification Act authorizes RUS to offer 100% guarantees of loans made to qualified telecommunications borrowers.

Eligibility: Public bodies providing telephone service in rural areas are eligible for FFB telecommunication loans. The applicant must provide or propose to provide basic local exchange service to rural areas.

RUS guarantees loans financed by the FFB which is an instrumentality of the U.S. Department of Treasury.

Servicing options: For each advance of funds received the borrower elects the prepayment/refinancing options. The premium for prepayment or refinancing varies, depending on the option chosen. If the borrower elects a 5-year no-call period, the advance may not be prepaid or refinanced until after the 5th anniversary of the advance date. If the borrower elects not to include a 5-year no-call period, the advance may be prepaid or refinanced at any time.

Distance Learning and Telemedicine Direct Loans

Purpose: Loans made under the distance learning and telemedicine program encourage, improve, and make affordable the use of telecommunications, computer networks, and related technology for rural communities to improve access to educational and medical services.

Eligibility: Incorporated organizations, partnerships, Indian tribes and tribal organizations, or other legal entities which provide or propose to provide telemedicine service or distance learning service in rural areas are eligible for distance learning and telemedicine loans.

Servicing options: If the recipient requests, a 1 year deferment of principal will be included in the terms of the loans.

Broadband Telecommunications Services

Purpose: For fiscal year 2001, the RUS announced a new loan program and the availability of loan funds under this program to finance the construction and installation of broadband telecommunications services in rural America. Broadband services provide telecommunications services at a high-speed rate. This program provides financing to communities with a population of 20,000 or less so that these rural communities can enjoy the same quality and range of telecommunications services that are available in urban and suburban communities.

Eligibility: Eligible borrowers must be incorporated or a limited liability company and may include public bodies, cooperatives, nonprofits, and limited dividend or mutual associations.

Servicing options: There may be a deferral period the first year in which there is no payment of principal.

RUS at a Glance

Repayment Period and Interest Rates:

Program	Repayment Period	Interest Rate
Water and Environmental	Useful life of the facility not to exceed 40 years	• The poverty rate will not exceed 5% • The intermediate rate will not exceed 7% • The market rate will be set using as guidance the average of the Bond buyer (11-GO Bond) Index
Water and Environmental Guaranteed	Maximum of 40 years	Rates will be negotiated between the lender and the borrower. They may be either fixed or variable rates.
Electric Direct Loans	Maximum of 35 years	• Hardship and municipal rate loans approved prior to 11/01/93 are fixed at 2% • Hardship loans approved on or after 11/01/93 are fixed at 5% • Municipal rate loans approved on are after 11/01/93 are based on rates equal to the current market yield on outstanding municipal obligations based on the Bond buyer (11-GO Bond) index. • Treasury rate loans are based on the Treasury rate established daily
Electric Guaranteed	Maximum is 35 years	• Loans guaranteed to FFB - The prevailing cost of money to Treasury, plus 1/8 of 1% • Loans guaranteed to NBC and NRUCFC - Rate is established by the lender
Telecommunications Direct Loans	Expected composite economic life (depreciated life plus 3 years) of the facility	• Hardship loans fixed at 5% • Cost-of-money loans are based on the Treasury rate for loans of a similar maturity. Not to exceed 7%

RTB	Expected useful life of the facilities not to exceed 35 years	The greater of the current cost of funds to RTB or 5%.
FFB - Telecommunications Guaranteed	Maximum is 35 years	Treasury's cost of money for debt instruments with similar maturities, plus 1/8 of 1%.
Distance Learning	Maximum of 10 years	Treasury rate
Broadband	Maximum of 10 years	Treasury's cost of money for debt instruments with similar maturities

The following narrative discusses our analysis of subsidy and the events that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

Direct Loans

Based on sensitivity analysis conducted for each cohort, the budgeted versus actual interest for both borrower and Treasury remain the key component for the subsidy formulation and reestimate rates. During FY 2001, OMB changed the procedure for calculating the Treasury discount rate in the OMB reestimate calculator. The new procedures result in a weighted average Treasury rate which include the undisbursed obligation at the budgeted interest rate weighted with disbursements at the actual rate for the year of disbursement. Additionally, beginning with the FY2001 cohort the discount rate is obtained from the OMB subsidy calculator using the "basket of zeros" approach which also includes a weighting of the undisbursed balances when determining the single effective rate for the cohort.

New cash flow models for all direct housing loan programs were used initially in FY2001. Separate models were developed for the single family and multi-family housing programs. The FY 1999 and 2000 activity year reestimates were prepared using the pre-existing model while the FY2001 activity was reestimated and trued-up using the newly developed housing models. All these reestimates were recorded in the current period while no reestimates were prepared for these direct programs in the prior fiscal year. Payment assistance applicable to the single family and multi-family housing programs is included in the "Other" component of subsidy expenses.

Another cash flow model was tested and implemented in this fiscal year for the community and utility programs. Reestimates related to FY1999 and 2000 activity were prepared utilizing the new model and recorded in the current period. For FY2001 activity, due to the predictability of the programs, an approximator method was used to prepare subsidy reestimate for material programs. Reestimates for three years' activity are recorded in the current period. The Rural Telephone Bank which uses this model has booked reestimates annually and current year reestimates were calculated using the model.

Due to the implementation of the new models, new reestimate calculator and the accumulation of prior year reestimates, it is difficult to compare the current and prior period expense. However, there were no abnormal repayments or losses which would have a material impact on the projected cash flows and the overall allowance for subsidy.

Guaranteed Loans

The guaranteed program also used the new OMB reestimate calculator to compute the reestimates. In FY 2000, the guaranteed program implemented a new cash flow model and recorded material FY 1999 and 2000 activity which is shown in the prior period. For the current period, all guaranteed reestimates were recorded for prior year activity and material FY2001 activity reestimates executed using the model. Key sensitivity elements in the guaranteed programs are fee collections and defaults. During FY2001, the Single-Family Housing program increased the upfront fee from 1% to 2% during the year, which will result in a lower subsidy rate. Both material programs, Single Family Housing and Business and Industry, experienced losses in excess of the budgeted projections.

Loans Subject to Credit Reform:

2001

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property (In Dollars)	Present Value Allowance	Value of Assets Related to Direct Loans
Rural Housing Service:					
RHIF	$ 27,787,255,374	$ 128,527,680	$ 66,194,636	$(5,351,204,929)	$ 22,630,772,761
RCFL	987,073,496	10,156,495	0	(115,802,791)	881,427,200
	$ 28,774,328,870	$ 138,684,175	$ 66,194,636	$(5,467,007,720)	$ 23,512,199,961
Rural Utilities Service:					
RETRF:					
Electric	$ 26,537,066,753	$ 207,271,135	$ 0	$ (1,851,806,588)	$ 24,892,531,300
Telephone	3,523,922,497	10,840,881	0	(425,455,261)	3,109,308,117
RTB	1,084,696,834	3,066,947	0	39,010,305	1,126,774,086
RWWDL	4,543,406,948	48,518,040	660,000	(710,086,356)	3,882,498,632
RDIF	3,079,477,255	33,040,081	0	(1,009,212,434)	2,103,304,902
DLML	14,242,839	18,592	0	740,728	15,002,159
RCDF	5,325,502	33,113	0	1,424,579	6,783,194
OTHER	2,332,378	36,241	0	0	2,368,619
	$ 38,790,471,006	$ 302,825,030	$ 660,000	$ (3,955,385,027)	$ 35,138,571,009
Rural Business and Cooperative Service:					
RDLF	$ 378,900,669	$ 1,886,661	$ 0	$ (161,495,709)	$ 219,291,621
RBIL	214,879,858	2,534,676	0	(117,661,159)	99,753,375
REDS	73,792,085	0	0	(13,285,609)	60,506,476
	$ 667,572,612	$ 4,421,337	$ 0	$ (292,442,477)	$ 379,551,472
Total	$ 68,232,372,488	$ 445,930,542	$ 66,854,636	$ (9,714,835,224)	$ 59,030,322,442

2000

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property (In Dollars)	Present Value Allowance	Value of Assets Related to Direct Loans
Rural Housing Service:					
RHIF	$ 28,354,731,028	$ 108,811,046	$ 62,884,639	$(7,844,314,097)	$ 20,682,112,616
RCFL	863,800,979	8,883,737	0	(91,757,944)	780,926,772
	$ 29,218,532,007	$ 117,694,783	$ 62,884,639	$(7,936,072,041)	$ 21,463,039,388
Rural Utilities Service:					
RETRF:					
Electric	$ 27,106,900,193	$ 295,754,512	$ 0	$ (1,492,393,468)	$ 25,910,261,237
Telephone	3,578,968,611	11,033,924	0	(84,376,664)	3,505,625,871
RTB	1,169,837,146	2,597,396	0	(74,305,322)	1,098,129,220
RWWDL	3,941,395,506	42,630,297	0	(651,914,493)	3,332,111,310
RDIF	3,283,550,194	41,067,988	0	(1,062,327,206)	2,262,290,976
DLML	1,011,020	1,524	0	3,942	1,016,486
RCDF	6,148,967	46,191	0	(1,445,475)	4,749,683
OTHER	2,862,570	53,070	0	0	2,915,640
	$ 39,090,674,207	$ 393,184,902	$ 0	$ (3,366,758,686)	$ 36,117,100,423
Rural Business and Cooperative Service:					
RDLF	$ 352,486,243	$ 1,688,920	$ 0	$ (158,715,178)	$ 195,459,985
RBIL	126,769,182	3,280,821	0	(5,308,376)	124,741,627
REDS	69,566,311	0	0	(11,643,445)	57,922,866
	$ 548,821,736	$ 4,969,741	$ 0	$ (175,666,999)	$ 378,124,478
Total	$ 68,858,027,950	$ 515,849,426	$ 62,884,639	$(11,478,497,726)	$ 57,958,264,289

These summary schedules are calculated from the detail amounts shown in the following sections and the last column total is readily traceable to the Consolidated Balance Sheet.

Accounting Policy – Present Value Disclosures:

As previously discussed in ***Note 1J***, direct loans, defaulted guaranteed loans, and loan guarantees made prior to fiscal year 1992 are reported on a present value basis. Direct loans or loan guarantees made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990, as amended. That Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest supplements, defaults (net of recoveries), fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct 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 loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The credit program receivables, net present value or the value of assets related to direct loans is not necessarily representative of the proceeds which might be expected to be received if these loans were sold on the open market.

An analysis of loans receivable, defaulted guaranteed loans, liability for loan guarantees, and the nature and amounts of the subsidy associated with the loans and loan guarantees are provided in the following sections.

Direct Loans Obligated Prior to Fiscal Year 1992 (Present Value Method):

2001

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property (In Dollars)	Present Value Allowance	Value of Assets Related to Direct Loans
Rural Housing Service:					
RHIF	$ 16,123,932,946	$ 89,625,960	$ 48,625,389	$ (2,635,577,192)	$ 13,626,607,103
	$ 16,123,932,946	$ 89,625,960	$ 48,625,389	$ (2,635,577,192)	$ 13,626,607,103
Rural Utilities Service:					
RETRF:					
Electric	$ 18,728,856,146	$ 162,916,370	$ 0	$ (1,414,859,650)	$ 17,476,912,866
Telephone	2,277,586,986	8,074,932	0	(398,589,648)	1,887,072,270
RTB	793,902,283	2,815,782	0	51,399,906	848,117,971
RDIF	3,079,477,255	33,040,081	0	(1,009,212,434)	2,103,304,902
RCDF	5,325,502	33,113	0	1,424,579	6,783,194
OTHER	2,332,378	36,241	0	0	2,368,619
	$ 24,887,480,550	$ 206,916,519	$ 0	$ (2,769,837,247)	$ 22,324,559,822
Rural Business and Cooperative Service:					
RDLF	$ 66,345,375	$ 307,465	$ 0	$ (17,685,077)	$ 48,967,763
REDS	372,161	0	0	1,332	373,493
	$ 66,717,536	$ 307,465	$ 0	$ (17,683,745)	$ 49,341,256
Total	$ 41,078,131,032	$ 296,849,944	$ 48,625,389	$ (5,423,098,184)	$ 36,000,508,181

2000

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
			(In Dollars)		
Rural Housing Service:					
RHIF	$ 17,322,105,404	$ 80,451,057	$ 48,380,965	$ (5,179,798,501)	$ 12,271,138,925
	$ 17,322,105,404	$ 80,451,057	$ 48,380,965	$ (5,179,798,501)	$ 12,271,138,925
Rural Utilities Service:					
RETRF:					
Electric	$ 21,101,489,154	$ 261,991,838	$ 0	$ (1,027,167,773)	$ 20,336,313,219
Telephone	2,478,035,502	8,425,406	0	(33,627,129)	2,452,833,779
RTB	923,673,900	2,483,485	0	(65,181,530)	860,975,855
RDIF	3,283,550,194	41,067,988	0	(1,062,327,206)	2,262,290,976
RCDF	6,148,967	46,191	0	(1,445,475)	4,749,683
OTHER	2,862,570	53,070	0	0	2,915,640
	$ 27,795,760,287	$ 314,067,978	$ 0	$ (2,189,749,113)	$ 25,920,079,152
Rural Business and Cooperative Service:					
RDLF	$ 70,506,388	$ 316,048	$ 0	$ (26,602,929)	$ 44,219,507
REDS	952,822	0	0	0	952,822
	$ 71,459,210	$ 316,048	$ 0	$ (26,602,929)	$ 45,172,329
Total	$ 45,189,324,901	$ 394,835,083	$ 48,380,965	$ (7,396,150,543)	$ 38,236,390,406

Direct Loans Obligated After Fiscal Year 1991:

2001

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
			(In Dollars)		
Rural Housing Service:					
RHIF	$ 11,663,322,428	$ 38,901,720	$ 17,569,247	$ (2,715,627,737)	$ 9,004,165,658
RCFL	987,073,496	10,156,495	0	(115,802,791)	881,427,200
	$ 12,650,395,924	$ 49,058,215	$ 17,569,247	$ (2,831,430,528)	$ 9,885,592,858
Rural Utilities Service:					
RETRF:					
Electric	$ 7,808,210,607	$ 44,354,764	$ 0	$ (436,946,937)	$ 7,415,618,434
Telephone	1,246,335,511	2,765,949	0	(26,865,613)	1,222,235,847
RTB	290,794,551	251,165	0	(12,389,601)	278,656,115
RWWDL	4,543,406,948	48,518,041	660,000	(710,086,357)	3,882,498,632
DLML	14,242,839	18,592	0	740,728	15,002,159
	$ 13,902,990,456	$ 95,908,511	$ 660,000	$ (1,185,547,780)	$ 12,814,011,187
Rural Business and Cooperative Service:					
RDLF	$ 312,555,294	$ 1,579,196	$ 0	$ (143,810,632)	$ 170,323,858
RBIL	214,879,858	2,534,676	0	(117,661,159)	99,753,375
REDS	73,419,924	0	0	(13,286,941)	60,132,983
	$ 600,855,076	$ 4,113,872	$ 0	$ (274,758,732)	$ 330,210,216
Total	$ 27,154,241,456	$ 149,080,598	$ 18,229,247	$ (4,291,737,040)	$ 23,029,814,261

2000

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
			(In Dollars)		
Rural Housing Service:					
RHIF	$ 11,032,625,624	$ 28,359,989	$ 14,503,674	$ (2,664,515,596)	$ 8,410,973,691
RCFL	863,800,979	8,883,737	0	(91,757,944)	780,926,772
	$ 11,896,426,603	$ 37,243,726	$ 14,503,674	$ (2,756,273,540)	$ 9,191,900,463
Rural Utilities Service:					
RETRF:					
Electric	$ 6,005,411,039	$ 33,762,674	$ 0	$ (465,225,695)	$ 5,573,948,018
Telephone	1,100,933,109	2,608,518	0	(50,749,535)	1,052,792,092
RTB	246,163,246	113,911	0	(9,123,792)	237,153,365
RWWDL	3,941,395,506	42,630,297	0	(651,914,493)	3,332,111,310
DLML	1,011,020	1,524	0	3,942	1,016,486
	$ 11,294,913,920	$ 79,116,924	$ 0	$ (1,177,009,573)	$ 10,197,021,271
Rural Business and Cooperative Service:					
RDLF	$ 281,979,855	$ 1,372,872	$ 0	$ (132,112,249)	$ 151,240,478
RBIL	126,769,182	3,280,821	0	(5,308,376)	124,741,627
REDS	68,613,489	0	0	(11,643,445)	56,970,044
	$ 477,362,526	$ 4,653,693	$ 0	$ (149,064,070)	$ 332,952,149
Total	$ 23,668,703,049	$ 121,014,343	$ 14,503,674	$ (4,082,347,183)	$ 19,721,873,883

Total Amount of Direct Loans Disbursed (Post – 1991):

Amounts presented in dollars.

	2001	2000
Rural Housing Service:		
RCFL	$ 163,147,116	$ 154,178,519
RHIF	1,222,343,322	1,287,332,091
	$ 1,385,490,438	$ 1,441,510,610
Rural Utilities Service:		
DLML	$ 14,194,589	$ 1,174,596
RETRF – ELEC	1,951,210,078	1,195,783,435
RETRF – TELE	200,003,197	194,025,345
RTB	55,405,819	31,464,083
RWWDL	693,870,115	668,193,510
	$ 2,914,683,798	$ 2,090,640,969
Rural Business and Cooperative Service:		
RBIL	$ 26,882,331	$ 23,877,524
RDLF	39,770,454	41,823,225
RED	16,393,600	11,744,000
	$ 83,046,385	$ 77,444,749
Total	$ 4,383,220,621	$ 3,609,596,328

Subsidy Expense for New Direct Loans Disbursed:

Amounts presented in dollars.

2001

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Rural Housing Service:					
RHIF	$ 227,504,797	$ 12,556,232	$ (74,102,292)	$ 47,641,621	$ 213,600,358
RCFL	15,991,191	484,561	(1,852,717)	1,488,144	16,111,179
Rural Utilities Service:					
RETRF:					
Electric	(3,254,255)	12,146,999	(508,750)	(864,937)	7,519,057
Telephone	3,378,188	93,020	(14,869)	38,186	3,494,525
RTB	676,141	10,494	0	15,899	702,534
RWWDL	95,682,858	669,535	(8,962)	(3,388,816)	92,954,615
DLML	10,391	1,213	0	693	12,297
Rural Business and Cooperative Service:					
RDLF	19,419,428	128,031	(552,915)	591,863	19,586,407
RBIL	(1,797,913)	2,377,578	(7,603)	7,862	579,924
REDS	4,160,873	22,685	0	(152,448)	4,031,110
Total	$ 361,771,699	$ 28,490,348	$ (77,048,108)	$ 45,378,067	$ 358,592,006

2000

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
***Rural Housing Service*:**					
RHIF	$ 165,018,378	$ 17,616,087	$ (83,983,156)	$ 70,968,685	$ 169,619,994
RCFL	16,191,280	424,754	(2,899,552)	2,814,546	16,531,028
***Rural Utilities Service*:**					
RETRF:					
Electric	34,397,627	6,996,596	(502,358)	(108,094)	40,783,771
Telephone	4,441,931	97,791	(16,340)	8,368	4,531,750
RTB	372,692	5,306	(56,117)	(2)	321,879
RWWDL	89,032,765	582,274	(15,716)	(3,366,638)	86,232,685
DLML	0	218	0	0	218
***Rural Business and Cooperative Service*:**					
RDLF	20,591,882	133,675	(727,942)	787,995	20,785,610
RBIL	0	0	0	0	0
REDS	2,888,603	7,054	0	(38,655)	2,857,002
Total	$ 332,935,158	$ 25,863,755	$ (88,201,181)	$ 71,066,205	$ 341,663,937

Reestimates and Total Direct Loan Subsidy Expense:

Amounts presented in dollars.

2001

	Reestimates			Total Direct Loan Subsidy Expense
	Interest Rate Reestimate	Technical Reestimate	Total Reestimate	2001
Rural Housing Service:				
RHIF	$ 271,375,000	$ (157,952,000)	$ 113,423,000	$ 327,023,358
RCFL	8,166,106	10,960,000	19,126,106	35,237,285
Rural Utilities Service:				
RETRF:				
Electric	325,941,249	(220,929,000)	105,012,249	112,531,306
Telephone	41,764,881	(34,575,000)	7,189,881	10,684,406
RTB	11,135,000	(9,457,000)	1,678,000	2,380,534
RWWDL	47,265,522	(36,081,000)	11,184,522	104,139,137
DLML	(93,000)	17,000	(76,000)	(63,703)
Rural Business and Cooperative Service:				
RDLF	(962,179)	1,223,000	260,821	19,847,228
RBIL	12,661,398	28,158,000	40,819,398	41,399,322
REDS	2,345,421	(599,000)	1,746,421	5,777,531
Total	$ 719,599,398	$ (419,235,000)	$ 300,364,398	$ 658,956,404 *

* This amount is derived by adding the total column amount for subsidy expense for new direct loans disbursed on the previous page to the total reestimate column amount on this page.

2000

	Reestimates			Total Direct Loan Subsidy Expense
	Interest Rate Reestimate	**Technical Reestimate**	**Total Reestimate**	**2000**
***Rural Housing Service*:**				
RHIF	$ 0	$ 0	$ 0	$ 169,619,994
RCFL	0	0	0	16,531,028
***Rural Utilities Service*:**				
RETRF:				
Electric	0	0	0	40,783,771
Telephone	0	0	0	4,531,750
RTB	(5,995,000)	5,635,000	(360,000)	(38,121)
RWWDL	0	0	0	86,232,685
DLML	0	0	0	218
***Rural Business and Cooperative Service*:**				
RDLF	0	0	0	20,785,610
RBIL	0	0	0	0
REDS	0	0	0	2,857,002
Total	$ (5,995,000)	$ 5,635,000	$ (360,000)	$ 341,303,937 *

* This amount is derived by adding the total column amount for subsidy expense for new direct loans disbursed on the previous page to the total reestimate column amount on this page.

Budget Subsidy Rates for Direct Loans for the Current Years' Cohorts:

Amounts are presented in dollars.

2001

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
RCFL					
Direct Community Facilities	12.03%	0.36%	0.00%	-0.70%	11.69%
RHIF					
Modular Housing Loans	23.17%	-0.05%	-1.51%	-1.54%	20.07%
Section 502 Direct Single Family Housing	17.33%	1.01%	-6.70%	4.42%	16.06%
Section 504 Direct Housing Repair	33.66%	1.96%	0.00%	-0.18%	35.44%
Credit Sales Sec. 203 (SFH)	-13.89%	3.89%	-10.05%	16.82%	-3.23%
Section 514 Farm Labor Housing	52.23%	0.06%	-2.24%	2.54%	52.59%
Section 515 Rural Rental Housing	56.24%	-0.04%	-1.10%	-5.83%	49.27%
Section 524 Housing Site Development	-2.53%	1.82%	-9.66%	10.25%	-0.12%
Section 504 Direct Housing Repair Natural Disaster	33.66%	1.96%	0.00%	-0.18%	35.44%
Section 523 Self-Help Housing Land Development	4.00%	1.02%	-9.05%	9.60%	5.57%
Credit Sales Sec. 209 (MFH)	56.26%	-0.04%	-1.73%	-5.46%	49.03%
DLML					
Distance Learning and Telemedicine	-0.43%	0.03%	0.00%	-0.21%	-0.61%

RETRF – ELEC					
Electric Municipal	7.56%	0.05%	0.00%	-0.66%	6.95%
FFB Electric	-3.30%	0.21%	0.00%	0.00%	-3.09%
Direct Electric Hardship	12.85%	0.01%	0.00%	-2.90%	9.96%
RETRF – TELE					
Telephone Treasury	-1.42%	0.02%	0.00%	0.40%	-1.00%
FFB Telephone	-2.04%	0.00%	0.00%	0.00%	-2.04%
Telephone Hardship	11.32%	0.01%	0.00%	-0.97%	10.36%
RTB					
Rural Telephone Bank	1.60%	0.03%	0.00%	-0.15%	1.48%
RWWDL					
Direct Water & Waste Disposal Loans	14.04%	0.09%	0.00%	-0.54%	13.59%
Direct Water & Waste Disposal Loans – Emergency Supplemental	14.04%	0.09%	0.00%	-0.54%	13.59%
RBIL					
Direct Business and Industry Loans	-18.04%	23.86%	0.00%	0.00%	5.82%
RDLF					
Intermediary Relending Program	51.00%	0.03%	0.00%	-0.12%	50.91%
RED					
Rural Economic Development	27.32%	0.17%	0.00%	-1.42%	26.07%

2000

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
RCFL					
Direct Community Facilities	5.93%	0.37%	0.00%	-0.24%	6.06%
RHIF					
Modular Housing Loans	23.17%	-0.05%	-1.51%	-1.54%	20.07%
502 Direct Single Family Housing	7.75%	1.60%	-7.78%	6.96%	8.53%
Section 504 Direct Housing Repair	28.20%	2.49%	0.00%	-0.13%	30.56%
Credit Sales Sec. 203 (SFH)	4.52%	1.79%	-8.26%	8.03%	6.08%
Section 514 Farm Labor Housing	44.86%	0.09%	-2.61%	2.89%	45.23%
Section 515 Rural Rental Housing	48.49%	-0.03%	-1.33%	-7.45%	39.68%
Section 524 Housing Site Development	-2.17%	1.81%	-9.76%	10.20%	0.08%
Section 504 Direct Housing Repair Natural Disaster	28.20%	2.49%	0.00%	-0.13%	30.56%
Section 523 Self-Help Housing Land Development	4.19%	1.06%	-9.22%	9.58%	5.61%
Credit Sales Sec. 209 (MFH)	48.15%	-0.33%	-1.64%	-6.64%	39.54%
DLML					
Distance Learning and Telemedicine	0.30%	0.03%	0.00%	0.02%	0.35%
RETRF – ELEC					
Electric Municipal	3.78%	0.02%	0.00%	-0.13%	3.67%
FFB Electric	-1.40%	0.22%	0.00%	0.00%	-1.18%
Direct Electric Hardship	0.72%	0.00%	0.00%	0.18%	0.90%

RETRF – TELE					
Telephone Treasury	0.44%	0.03%	0.00%	0.32%	0.79%
FFB Telephone	-0.46%	0.00%	0.00%	0.00%	-0.46%
Telephone Hardship	0.96%	0.06%	0.00%	0.10%	1.12%
RTB					
Rural Telephone Bank	1.28%	0.04%	0.00%	0.56%	1.88%
RWWDL					
Direct Water & Waste Disposal Loans	7.26%	0.09%	0.00%	-0.25%	7.10%
Direct Water & Waste Disposal Loans – Emergency Supplemental	7.26%	0.09%	0.00%	-0.25%	7.10%
RBIL					
Direct Business and Industry Loans	-22.98%	7.16%	0.00%	1.66%	-14.16%
RDLF					
Intermediary Relending Program	43.50%	0.03%	0.00%	-0.10%	43.43%
RED					
Rural Economic Development	23.78%	0.18%	0.00%	-0.94%	23.02%

Schedule for Reconciling Subsidy Cost Allowance Balances (Post –1991 Direct Loans)

Amounts presented in dollars.

Beginning Balance, Changes, and Ending Balance	FY 2001	FY 2000
Beginning balance of the subsidy cost allowance	$ 4,082,347,182	$ 3,917,903,234
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	361,771,699	332,935,158
Default costs (net of recoveries)	28,490,348	25,863,755
Fees and other collections	(77,048,108)	(88,201,181)
Other subsidy costs	45,378,067	71,066,205
Total of the above subsidy expense components	358,592,006	341,663,937
Adjustments:		
Fees received	6,674,052	8,529,208
Loans written off	(79,016,116)	(39,906,703)
Subsidy allowance amortization	(400,456,676)	(126,876,258)
Other	23,232,194	(18,606,235)
Ending balance of the subsidy cost allowance before reestimates	3,991,372,642	4,082,707,183
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	719,599,398	(5,995,000)
Technical/default reestimate	(419,235,000)	5,635,000
Total of the above reestimate components	300,364,398	(360,000)
Ending balance of the subsidy cost allowance	$ 4,291,737,040	$ 4,082,347,183

Guaranteed Loans Outstanding: 2001

	Pre-1992 Outstanding Principal of Guaranteed Loans (Face Value)	Post-1991 Outstanding Principal of Guaranteed Loans (Face Value) (In Dollars)	Total Outstanding Principal of Guaranteed Loans (Face Value)
Rural Housing Service:			
RHIF	$ 18,704,006	$ 12,672,555,298	$ 12,691,259,304
RCFL	0	268,897,377	268,897,377
	$ 18,704,006	$ 12,941,452,675	$ 12,960,156,681
Rural Utilities Service:			
ELECTRIC	$ 357,668,484	$ 147,206,982	$ 504,875,466
RWWDL	0	23,329,910	23,329,910
RDIF	97,888,554	0	97,888,554
RCDF	4,260,192	0	4,260,192
	$ 459,817,230	$ 170,536,892	$ 630,354,122
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 3,503,944,256	$ 3,503,944,256
ARMY	0	10,000,000	10,000,000
	$ 0	$ 3,513,944,256	$ 3,513,944,256
Total	$ 478,521,236	$ 16,625,933,823	$ 17,104,455,059

	Pre-1992 Amount of Outstanding Principal Guaranteed	Post-1991 Amount of Outstanding Principal Guaranteed (In Dollars)	Total Amount of Outstanding Principal Guaranteed
Rural Housing Service:			
RHIF	$ 16,995,237	$ 11,405,336,513	$ 11,422,331,750
RCFL	0	225,008,385	225,008,385
	$ 16,995,237	$ 11,630,344,898	$ 11,647,340,135
Rural Utilities Service:			
ELECTRIC	$ 357,668,484	$ 147,206,982	$ 504,875,466
RWWDL	0	19,602,443	19,602,443
RDIF	66,760,472	0	66,760,472
RCDF	3,834,173	0	3,834,173
	$ 428,263,129	$ 166,809,425	$ 595,072,554
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 2,648,068,450	$ 2,648,068,450
ARMY	0	9,000,000	9,000,000
	$ 0	$ 2,657,068,450	$ 2,657,068,450
Total	$ 445,258,366	$ 14,454,222,773	$ 14,899,481,139

Guaranteed Loans Outstanding: 2000

(In Dollars)

	Pre-1992 Outstanding Principal of Guaranteed Loans (Face Value)	Post-1991 Outstanding Principal of Guaranteed Loans (Face Value)	Total Outstanding Principal of Guaranteed Loans (Face Value)
Rural Housing Service:			
RHIF	$ 20,422,298	$ 11,301,575,123	$ 11,321,997,421
RCFL	0	225,193,852	225,193,852
	$ 20,422,298	$ 11,526,768,975	$ 11,547,191,273
Rural Utilities Service:			
ELECTRIC	$ 381,981,116	$ 55,559,710	$ 437,540,826
RWWDL	0	18,966,929	18,966,929
RDIF	108,592,461	0	108,592,461
RCDF	4,415,557	0	4,415,557
	$ 494,989,134	$ 74,526,639	$ 569,515,773
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 3,179,082,653	$ 3,179,082,653
ARMY	0	10,000,000	10,000,000
	$ 0	$ 3,189,082,653	$ 3,189,082,653
Total	$ 515,411,432	$ 14,790,378,267	$ 15,305,789,699

(In Dollars)

	Pre-1992 Amount of Outstanding Principal Guaranteed	Post-1991 Amount of Outstanding Principal Guaranteed	Total Amount of Outstanding Principal Guaranteed
Rural Housing Service:			
RHIF	$ 18,507,528	$ 10,169,348,716	$ 10,187,856,244
RCFL	0	185,246,054	185,246,054
	$ 18,507,528	$ 10,354,594,770	$ 10,373,102,298
Rural Utilities Service:			
ELECTRIC	$ 381,981,116	$ 55,559,710	$ 437,540,826
RWWDL	0	15,461,255	15,461,255
RDIF	87,948,978	0	87,948,978
RCDF	3,974,002	0	3,974,002
	$ 473,904,096	$ 71,020,965	$ 544,925,061
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 2,521,861,040	$ 2,521,861,040
ARMY	0	9,000,000	9,000,000
	$ 0	$ 2,530,861,040	$ 2,530,861,040
Total	$ 492,411,624	$ 12,956,476,775	$ 13,448,888,399

New Guaranteed Loans Disbursed:

Amounts presented in dollars.

	2001	
	Outstanding Principal Of Guaranteed Loans (Face Value)	**Amount of Outstanding Principal Guaranteed**
Rural Housing Service:		
RCFL	$ 74,295,808	$ 61,528,370
RHIF	2,170,130,814	1,953,117,733
	$ 2,244,426,622	$ 2,014,646,103
Rural Utilities Service:		
ELECTRIC	$ 91,764,390	$ 91,764,390
RWWDL	4,215,759	3,411,860
	$ 95,980,149	$ 95,176,250
Rural Business and Cooperative Service:		
RBIL	$ 808,924,714	$ 636,061,548
	$ 808,924,714	$ 636,061,548
Total	$ 3,149,331,485	$ 2,745,833,901

New Guaranteed Loans Disbursed:

Amounts presented in dollars.

	2000	
	Outstanding Principal Of Guaranteed Loans (Face Value)	**Amounts of Outstanding Principal Guaranteed**
Rural Housing Service:		
RCFL	$ 62,603,412	$ 51,845,266
RHIF	2,239,677,765	2,015,709,989
	$ 2,302,281,177	$ 2,067,555,255
Rural Utilities Service:		
ELECTRIC	$ 39,517,710	$ 39,517,710
RWWDL	13,313,650	10,774,883
	$ 52,831,360	$ 50,292,593
Rural Business and Cooperative Service:		
RBIL	$ 966,537,467	$ 759,993,243
	$ 966,537,467	$ 759,993,243
Total	$ 3,321,650,004	$ 2,877,841,091

Liability for Loan Guarantees:

	2001		
	Liabilities For Losses on Pre-1992 Guarantees (Present Value)	Liabilities for Loan Guarantees For Post-1991 Guarantees (Present Value) (In Dollars)	Total Liabilities For Loan Guarantees (Present Value)
Rural Housing Service:			
RHIF	$ 4,022,703	$ 411,564,461	$ 415,587,164
RCFL	0	934,310	934,310
	$ 4,022,703	$ 412,498,771	$ 416,521,474
Rural Utilities Service:			
ELECTRIC	$ 18,721,480	$ 119,275	$ 18,840,755
RWWDL	0	(294,370)	(294,370)
RDIF	2,483,511	0	2,483,511
	$ 21,204,991	$ (175,095)	$ 21,029,896
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 174,133,111	$ 174,133,111
ARMY	0	690,730	690,730
	$ 0	$ 174,823,841	$ 174,823,841
Total	$ 25,227,694	$ 587,147,517	$ 612,375,211

Liability for Loan Guarantees:

	2000		
	Liabilities For Losses on Pre-1992 Guarantees (Present Value)	**Liabilities for Loan Guarantees For Post-1991 Guarantees (Present Value)** (In Dollars)	**Total Liabilities For Loan Guarantees (Present Value)**
Rural Housing Service:			
RHIF	$ 2,387,588	$ 373,757,532	$ 376,145,120
RCFL	0	3,208,575	3,208,575
	$ 2,387,588	$ 376,966,107	$ 379,353,695
Rural Utilities Service:			
ELECTRIC	$ 18,721,480	$ 0	$ 18,721,480
RWWDL	0	(568,093)	(568,093)
RDIF	2,105,298	0	2,105,298
	$ 20,826,778	$ (568,093)	$ 20,258,685
Rural Business and Cooperative Service:			
RBIL	$ 0	$ 194,874,333	$ 194,874,333
ARMY	0	655,730	655,730
	$ 0	$ 195,530,063	$ 195,530,063
Total	$ 23,214,366	$ 571,928,077	$ 595,142,443

Subsidy Expense for New Loan Guarantees:

Amounts presented in dollars.

2001

	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Rural Housing Service:					
RHIF	$ (4,741,642)	$ 60,314,680	$ (52,520,510)	$ (2,141)	$ 3,050,387
RCFL	0	(181,224)	(332,662)	(19,732)	(533,618)
Rural Utilities Service:					
ELECTRIC	0	5,275	0	0	5,275
RWWDL	0	353,557	(34,062)	(370,413)	(50,918)
Rural Business and Cooperative Service:					
RBIL	0	20,382,798	(13,772,848)	(805,391)	5,804,559
ARMY	0	0	0	0	0
Total	$ (4,741,642)	$ 80,875,086	$ (66,660,082)	$ (1,197,677)	$ 8,275,685

2000

	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
***Rural Housing Service*:**					
RHIF	$ 4,939,030	$ 31,753,355	$ (24,391,957)	$ (1,550)	$ 12,298,878
RCFL	0	313,864	(98,718)	0	(215,146)
***Rural Utilities Service*:**					
RWWDL	0	1,169,285	(111,941)	(1,262,065)	(204,721)
***Rural Business and Cooperative Service*:**					
RBIL	0	44,403,494	(12,667,061)	(2,093,725)	29,642,708
ARMY	0	758,390	(289,600)	(41,630)	427,160
Total	$ 4,939,030	$ 77,770,660	$ (37,361,841)	$ (3,398,970)	$ 41,948,879

Reestimates and Total Loan Guarantee Subsidy Expense (Post-1991) (Current Reporting Year):

Amounts presented in dollars.

	2001			
	Reestimates			**Total Loan Guarantee Subsidy Expense**
	Interest Rate Reestimate	**Technical Reestimate**	**Total Reestimate**	**2001**
***Rural Housing Service*:**				
RHIF	$ 45,763,986	$ 14,000	$ 45,777,986	$ 48,828,373
RCFL	(1,900,000)	359,000	(1,541,000)	(2,074,618)
***Rural Utilities Service*:**				
ELECTRIC	18,000	87,000	105,000	110,275
RWWDL	(289,000)	600,000	311,000	260,082
***Rural Business and Cooperative Service*:**				
RBIL	57,614,087	671,000	58,285,087	64,089,646
ARMY	0	0	0	0
Total	$ 101,207,073	$ 1,731,000	$ 102,938,073	$ 111,213,758 *

* This amount is derived by adding the total column amount for subsidy expense for new direct loans disbursed on the previous page to the total reestimate column amount on this page.

2000

	Reestimates			Total Loan Guarantee Subsidy Expense
	Interest Rate Reestimate	**Technical Reestimate**	**Total Reestimate**	**2000**
***Rural Housing Service*:**				
RHIF	$ 27,322,000	$ 152,108,000	$ 179,430,000	$ 191,728,878
RCFL	0	0	0	(215,146)
***Rural Utilities Service*:**				
RWWDL	0	0	0	(204,721)
***Rural Business and Cooperative Service*:**				
RBIL	10,701,000	58,386,000	69,087,000	98,729,708
ARMY	0	0	0	427,160
Total	$ 38,023,000	$ 210,494,000	$ 248,517,000	$ 290,465,879 *

* This amount is derived by adding the total column amount for subsidy expense for new direct loans disbursed on the previous page to the total reestimate column amount on this page.

Budget Subsidy Rates for Loan Guarantees for the Current Years' Cohorts:

Amounts presented in dollars.

			2001		
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
RCFL					
Guaranteed Community Facility Loans	0.00%	0.29%	-0.80%	-0.03%	-0.54%
RHIF					
Subsidy Guaranteed Regular Sec 502	0.00%	2.20%	-2.00%	0.00%	0.20%
Section 538 Guaranteed Multi-Family Housing	5.39%	2.02%	-5.89%	0.00%	1.52%
Section 502 Guaranteed Single-Family Housing	0.00%	2.20%	-2.00%	0.00%	0.20%
RETRF – ELEC					
Guaranteed Electric	0.00%	0.01%	0.00%	0.00%	0.01%
RBIL					
NadBank Loans	0.00%	2.64%	-1.70%	-0.12%	0.82%
Guaranteed Business and Industry Loans	0.00%	2.46%	-1.49%	-0.11%	0.86%

	2000				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
RCFL					
Guaranteed Community Facility Loans	0.00%	0.29%	-0.80%	-0.03%	-0.54%
RHIF					
Section 538 Guaranteed Multi-Family Housing	4.54%	2.10%	-6.16%	0.00%	0.48%
Section 502 Guaranteed Single-Family Housing	0.00%	1.61%	-1.00%	0.00%	0.61%
RETRF – ELEC					
Guaranteed Electric	0.00%	0.01%	0.00%	0.00%	0.01%
RBIL					
NadBank Loans	0.00%	5.25%	-1.70%	-0.27%	3.28%
Guaranteed Business and Industry Loans	0.00%	4.89%	-1.53%	-0.25%	3.11%

Schedule for Reconciling Loan Guarantee Liability Balances (Post –1991 Loan Guarantees)

Amounts presented in dollars.

Beginning Balance, Changes, and Ending Balance	FY 2001	FY 2000
Beginning balance of loan guarantee liability	$ 571,928,077	$ 337,963,040
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest supplement costs	(4,741,642)	4,939,030
Default costs (net of recoveries)	80,875,086	77,770,660
Fees and other collections	(66,660,082)	(37,361,841)
Other subsidy costs	(1,197,677)	(3,398,970)
Total of the above subsidy expense components	8,275,685	41,948,879
Adjustments:		
Fees received	48,238,257	38,376,462
Interest supplements paid	(77,695)	(56,072)
Claim payments to lenders	(90,668,872)	(92,032,672)
Interest accumulation on the liability balance	17,770,938	9,247,189
Other	(71,256,946)	(12,035,749)
Ending balance of the loan guarantee liability	484,209,444	323,411,077
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	101,207,073	38,023,000
Technical/default reestimate	1,731,000	210,494,000
Total of the above reestimate components	102,938,073	248,517,000
Ending balance of the loan guarantee liability	$ 587,147,517	$ 571,928,077

Administrative Expense:

Direct Loans		Guaranteed Loans	
2001	**2000**	**2001**	**2000**
$ 201,876,195	$ 0	$ 121,995,003	$ 0
$ 201,876,195	$ 0	$ 121,995,003	$ 0

Other Disclosures

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with pre-1992 and post-1991 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 the years 2001 and 2000, Rural Housing Service properties consist primarily of 1,249 and 1,233 rural single family dwellings, respectively. The average holding period for single family housing properties in inventory for the years 2001 and 2000 was 21.5 and 18.8 months, respectively. The approximate number of borrowers for which foreclosure proceedings were in process at the end of fiscal year 2001 and 2000 was 18,600 and 29,700, respectively. Certain properties can be leased to eligible individuals.

Other

The unpaid principal balance of nonperforming loans as of September 30, 2001 and 2000, was $1.2 and $1.2 billion, respectively. If interest had been reported for fiscal year 2001 and 2000, respectively, on these nonperforming loans, instead of reported only to the extent of the collections received, interest income would have increased by $67.9 and $65.4 million to a total of $4.3 and $4.3 billion and $536 and $420 million during the entire delinquency. Approximately $19.6 and $19.7 billion of the Rural Housing Service unpaid loan principal as of September 30, 2001 and 2000, 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 $1.2 and $1.2 billion higher for fiscal years 2001 and 2000, respectively. As of September 30, 2001 and 2000, the Rural Development portfolio contained approximately 114 and 123 thousand restructured loans with an outstanding unpaid principal balance of $6.7 and $9.4 billion, respectively.

The financial strength of Generation and Transmission Cooperative (G&T) borrowers depends in part on the long term, all-requirements wholesale power contracts between the G&T and its distribution members. The contracts, which are pledged to the government and the G&T's other secured lenders, provide revenues necessary for the G&T to meet its operating costs and repay indebtedness. A 7th Circuit Court of Appeals decision regarding the assignability of such contracts could, if followed by other courts, affect the value of the contracts as security under certain circumstances including the bankruptcy of a G&T. Management believes that the contracts will be upheld in the future and that there will be no material impact to the financial condition of the agency.

NOTE 6: GENERAL PROPERTY, PLANT AND EQUIPMENT (P, P&E)

Amounts are presented in dollars.

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

2001

Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life**	Method of Depreciation *	Capitalization Threshold
Personal Property						
Equipment	$ 8,351,746	$ (3,271,193)	$ 5,080,553	1-5	SL	$ 5,000
Internal Use Software	11,020,546	(492,183)	10,528,363	2-15	SL	$100,000
Other	1,413	0	1,413	1-5	SL	N/A
Total	19,373,705	(3,763,376)	15,610,329			
Real Property						
Other	5,214	0	5,214	1-10	SL	N/A
Total	5,214	0	5,214			
Total P,P&E	$ 19,378,919	$ (3,763,376)	$ 15,615,543			

2000

Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life**	Method of Depreciation *	Capitalization Threshold
Personal Property						
Equipment	$ 4,538,635	$ (2,909,299)	$ 1,629,336	1-5	SL	$5,000
Software	0	0	0			N/A
Total P,P&E	4,538,635	(2,909,299)	1,629,336			
Real Property						
Other	9,047	(1,204)	7,843	1-10	SL	N/A
Total	9,047	(1,204)	7,843			
Total P,P&E	$ 4,547,682	$ (2,910,503)	$ 1,637,179			

*** SL – Straight Line** **** Range of Service Life**

NOTE 7: OTHER ASSETS

Amounts are presented in dollars.

	2001	2000
With the Public		
Investment in Loan Asset Sale Trust*	$ 34,614,488	$ 34,614,488
Other	2,245,709	2,141,747
Total Other Assets	$ 36,860,197	$ 36,756,235

* In fiscal year 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. During fiscal year 2000, the Rural Housing Trust, 1987-1, began remitting residual cash flows to Rural Development and should continue over the next few years.

NOTE 8: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Amounts are presented in dollars.

	2001	2000
Intragovernmental:		
Accrued Federal Employees Compensation Act (FECA) Bills	$ 311,827	$ 5,237,279
Total Intragovernmental	311,827	5,237,279
Annual Leave	69,029,010	31,352,658
FECA	4,961,577	36,694,362
Other	0	39,233
Total Liabilities Not Covered by Budgetary Resources	74,302,414	73,323,532
Total Liabilities Covered by Budgetary Resources	62,492,974,294	60,960,421,855
Total Liabilities	$ 62,567,276,708	$ 61,033,745,387

See ***Note 1P*** for a discussion of FECA.

See ***Note 1S*** for a discussion of Annual Leave.

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

NOTE 9: DEBT

Amounts are presented in dollars.

2001

	Beginning Balance	New Borrowing	Ending Balance
Agency Debt			
Interest Bearing:			
Held by the Public	$ 1,818,072	$ (182,239)	$ 1,635,833
Notes Payable	88,545,000	(2,930,000)	85,615,000
Total Agency Debt	90,363,072	(3,112,239)	87,250,833
Other Debt			
Interest Bearing:			
Debt to the Treasury	18,694,828,623	1,651,976,022	20,346,804,645
Debt to the Federal Financing Bank (FFB)	26,262,472,483	(1,587,931,450)	24,674,541,033
Total	44,957,301,106	64,044,572	45,021,345,678
Non-Interest Bearing:			
Debt to the Treasury	5,712,829,769	(427,500,000)	5,285,329,769
Total	5,712,829,769	(427,500,000)	5,285,329,769
Total Other Debt	50,670,130,875	(363,455,428)	50,306,675,447
Total Debt	$ 50,760,493,947	$ (366,567,667)	$ 50,393,926,280

2000

	Beginning Balance	New Borrowing	Ending Balance
Agency Debt			
Interest Bearing:			
Held by the Public	$ 10,104,738	$ (8,286,666)	$ 1,818,072
Notes Payable	256,233,226	(167,688,226)	88,545,000
Total Agency Debt	266,337,964	(175,974,892)	90,363,072
Other Debt			
Interest Bearing:			
Debt to the Treasury	16,675,853,084	2,018,975,539	18,694,828,623
Debt to the Federal Financing Bank (FFB)	29,018,878,492	(2,756,406,009)	26,262,472,483
Total	45,694,731,576	(737,430,470)	44,957,301,106
Non-Interest Bearing:			
Debt to the Treasury	5,927,829,769	(215,000,000)	5,712,829,769
Total	5,927,829,769	(215,000,000)	5,712,829,769
Total Other Debt	51,622,561,345	(952,430,470)	50,670,130,875
Total Debt	$ 51,888,899,309	$ (1,128,405,362)	$ 50,760,493,947

	2001	2000
Classification of Debt		
Intragovernmental	$ 50,306,675,447	$ 50,670,130,875
Held by the Public	87,250,833	90,363,072
Total Debt	$ 50,393,926,280	$ 50,760,493,947

Borrowings from the FFB are 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 becomes 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 fiscal year 2001 and 2000, there were approximately $68 and $9 million of FFB loans repriced or refinanced, respectively.

In conjunction with certain RUS troubled debt restructurings, Rural Development has assumed notes payable to non-federal entities for FY 2001 and 2000, approximating $86 and $89 million, respectively for debt previously guaranteed. A substantial portion of these balances are owed to the National Rural Utilities Cooperative Finance Corporation, a private lender to rural electric borrowers. The notes bear interest at rates ranging from 7.13 to 10.70 percent, and mature through the year 2025.

Supplemental information associated with debt follows:

Amounts are presented in dollars.

	2001	2000
Interest Payable, Federal		
Federal Financing Bank	$ 546,259,022	$ 697,814,923
U.S. Treasury	17,274,944	54,756,371
Total	$ 563,533,966	$ 752,571,294
Interest Expense, Federal		
Federal Financing Bank	$ 2,155,440,163	$ 2,348,873,365
U.S. Treasury	1,376,611,334	1,319,196,982
Total	$ 3,532,051,497	$ 3,668,070,347

NOTE 10: STOCK PAYABLE TO RTB BORROWERS

Amounts are presented in dollars.

	2001	2000
With the Public		
B Stock Payable	$ 819,590,019	$ 718,046,719
C Stock Payable	447,722,000	344,837,000
Total	$ 1,267,312,019	$ 1,062,883,719

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 loans 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 either upon retiring the debt with RTB or effective November 8, 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 7, Unexpended Appropriations**, in the Rural Telephone Bank Financial Statements which is issued under separate cover.

NOTE 11: OTHER LIABILITIES

Amounts are presented in dollars.

	2001		
	Current	**Non-Current**	**Total**
Intragovernmental			
Employer Contributions &			
Payroll Taxes Payable	$ 3,197,675	$ 0	$ 3,197,675
Custodial Liability	44,524	0	44,524
Other Accrued Liabilities (S&E)	10,515,881	0	10,515,881
Payable to Treasury General Fund	187,149,397	0	187,149,397
Total Intragovernmental	200,907,477	0	200,907,477
With the Public			
Accrued Funded Payroll and			
Benefits	5,825	0	5,825
Dividends Payable	20,675,583	0	20,675,583
Trust & Deposit Liabilities	62,570,593	0	62,570,593
Other Accrued Liabilities (S&E)	90,549,546	0	90,549,546
Other	(9,655,436)	16,224,624	6,569,188
Total Other Liabilities	$365,053,588	$ 16,224,624	$ 381,278,212

	2000		
	Current	**Non-Current**	**Total**
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ 3,055,319	$ -	$ 3,055,319
Other Accrued Liabilities (S&E)	6,305,382	-	6,305,382
Total Intragovernmental	9,360,701	-	9,360,701
Non-Federal			
Accrued Funded Payroll and Benefits	20,966,134	-	20,966,134
Dividends Payable	18,006,399	-	18,006,399
Trust & Deposit Liabilities	53,849,740	-	53,849,740
Other Accrued Liabilities (S&E)	32,862,432	-	32,862,432
Other	(10,253,035)	15,551,919	5,298,884
Total Other Liabilities	$ 124,792,371	$ 15,551,919	$ 140,344,290

These liabilities are covered by Budgetary Resources.

NOTE 12: 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, 2001 and 2000, rent expense was $17.6 and $17.1 million, respectively. Future lease payments to GSA should approximate these amounts.

As of September 30, 2001 and 2000, there were approximately $2.3 and $2.1 billion in commitments to extend loan guarantees, respectively.

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

CONTINGENCIES

A class action complaint alleging race and gender discrimination under various civil rights and program statutes, know as, Chiang v. Veneman, Civil Action #2000/004 (D.C.V.I.) is in the early stages of litigation. The Government has filed a Motion to Dismiss and to Strike the Class Allegations. A determination has been made by the Office of General Counsel that it is

"Reasonably Possible" that an unfavorable outcome is likely to occur. Opposing counsel has requested relief in the amount of $2.8 billion.

Although overall the existing multiple family housing portfolio is in fair to good condition, Rural Development National Office officials, during a fiscal year 2000 Management Control Review determined that adequate funds had not been accrued to address future maintenance costs. A conservative estimate is that in the next 5 years, 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 13: UNEXPENDED APPROPRIATIONS

Amounts are presented in dollars.

	2001	2000
Unexpended Appropriations		
Unobligated, Available	$ 238,645,696	$ 176,280,318
Unobligated, Unavailable	52,691,435	43,382,518
Undelivered Orders	4,964,219,728	4,555,037,927
Total Unexpended Appropriations	$ 5,255,556,859	$ 4,774,700,763

Capital Stock Class A:
Rural Development owns all Class A stock on behalf of the United States Government and any cash dividends are paid to the U.S. Treasury. Public Laws 92-12 and 97-98 authorized Congress, in fiscal years 1971 through 1991, to appropriate no more than $30 million per year for the purchase of RTB Class A stock, a nonvoting class of stock. Class A stock has a guaranteed annual dividend of 2 percent of the total funds received. The law provides that Congress annually appropriate funds until such purchases approximate $600 million. The total amount of RTB Class A stock appropriations received is $592.1 million and no future appropriations are anticipated. Beginning in 1996, RTB is required to repurchase this stock from Rural Development; however, in accordance with Public Law 105-86, the maximum Class A stock that may be retired is 5 percent. According to enabling legislation and amendments, the Bank will be converted to independent status when 51 percent of the Class A stock issued to the United States has been fully redeemed and retired. On September 30, 2001 and 2000, in accordance with Bank Board resolutions 2001-2 and 2000-6, the fifth and fourth redemptions of Class A stock, in the amounts of $23.8 and $25.1 million occurred, leaving balances of $452.9 and $476.7 million outstanding, respectively which has been eliminated in consolidation.

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.

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

	2001		
	Mortgage Credit	**Housing Assistance**	**Area & Regional Development**
COSTS			
Program Costs:			
Intragovernmental	$ 1,447,418,829	$ 36,874,945	$ 1,005,631,028
With the Public:			
Grants and Transfers:			
Grants and Payments	522,827	721,465,333	630,727,247
Indemnities	278,569	27,826	122,981
Loan Subsidy Costs	375,308,361	543,370	270,992,444
Other Program Costs	(1,677,465,272)	31,123,819	323,010,468
Total Program Costs	146,063,314	790,035,293	2,230,484,168
Less: Earned Revenues (Note 15)	(1,949,444,103)	(27,506,806)	(1,135,365,684)
Excess Production Costs Over Revenues	(1,803,380,789)	762,528,487	1,095,118,484
Net Program Costs	(1,803,380,789)	762,528,487	1,095,118,484
Costs Not Assigned to Programs			
NET COST OF OPERATIONS	$ (1,803,380,789)	$ 762,528,487	$ 1,095,118,484

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

2001

	Energy Supply & Conservation	Department of Defense - Military	Water Resources
COSTS			
Program Costs:			
Intragovernmental	$ 1,655,304,050	$ 0	$ 0
With the Public:			
Grants and Transfers:			
Grants and Payments	(2,500)	0	0
Indemnities	33,324	0	0
Loan Subsidy Costs	123,325,987	0	0
Other Program Costs	2,352,048,682	35,000	0
Total Program Costs	4,130,709,543	35,000	0
Less: Earned Revenues (Note 15)	(1,925,033,567)	(35,000)	(114,299)
Excess Production Costs Over Revenues	2,205,675,976	0	(114,299)
Net Program Costs	2,205,675,976	0	(114,299)
Costs Not Assigned to Programs			
NET COST OF OPERATIONS	$ 2,205,675,976	$ 0	$ (114,299)

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

2001

	Agricultural Research & Services	Conservation & Land Management	Pollution Control and Abatement	Intra-Agency Eliminations	Consolidated Total
COSTS					
Program Costs:					
Intragovernmental	$ 346,119	$ 0	$ 0	$ (450,016,263)	$ 3,695,558,708
With the Public:					
Grants and Transfers:					
Grants and Payments	1,435,454	0	0	0	1,354,148,361
Indemnities	261	0	0	0	462,961
Loan Subsidy Costs	0	0	0	0	770,170,162
Other Program Costs	292,137	0	0	0	1,029,044,834
Total Program Costs	2,073,971	0	0	(450,016,263)	6,849,385,026
Less: Earned Revenues (Note 15)	(258,187)	0	0	450,016,263	(4,587,741,383)
Excess Production Costs Over Revenues	1,815,784	0	0	0	2,261,643,643
Net Program Costs	1,815,784	0	0	0	2,261,643,643
Costs Not Assigned to Programs					0
NET COST OF OPERATIONS	$ 1,815,784	$ 0	$ 0	$ 0	$ 2,261,643,643

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

	2000		
	Mortgage Credit	**Housing Assistance**	**Area & Regional Development**
COSTS			
Program Costs:			
Intragovernmental	$ 1,693,308,520	$ 0	$ 933,125,926
With the Public:			
Grants and Transfers:			
Grants and Payments	44,148,809	557,597,879	519,304,814
Loan Subsidy Costs	361,348,872	0	224,678,263
Other Program Costs	(387,752,394)	0	477,478,156
Total Program Costs	1,711,053,807	557,597,879	2,154,587,159
Less: Earned Revenues (Note 15)	(1,972,844,669)	0	(1,053,022,216)
Excess Production Costs Over Revenues	(261,790,862)	557,597,879	1,101,564,943
Net Program Costs	(261,790,862)	557,597,879	1,101,564,943
Costs Not Assigned to Programs			
NET COST OF OPERATIONS	$ (261,790,862)	$ 557,597,879	$ 1,101,564,943

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

	2000		
	Energy Supply & Conservation	**Department of Defense - Military**	**Water Resources**
COSTS			
Program Costs:			
Intragovernmental	$ 1,707,601,979	$ 16,950	$ 0
With the Public:			
Grants and Transfers:			
Grants and Payments	1,280	0	0
Loan Subsidy Costs	45,315,521	427,160	0
Other Program Costs	(1,108,252,356)	0	0
Total Program Production Costs	644,666,424	444,110	0
Less: Earned Revenues (Note 15)	(1,977,060,670)	0	(96,528)
Excess Production Costs Over Revenues	(1,332,394,246)	444,110	(96,528)
Net Program Costs	(1,332,394,246)	444,110	(96,528)
Costs Not Assigned to Programs			
NET COST OF OPERATIONS	$ (1,332,394,246)	$ 444,110	$ (96,528)

NOTE 14: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in dollars.

2000

	Agricultural Research & Services	Conservation & Land Management	Pollution Control and Abatement	Intra-Agency Eliminations	Consolidated Total
COSTS					
Program Costs:					
Intragovernmental	$ 0	$ 0	$ 0	$ (462,157,715)	$ 3,871,895,660
With the Public:					
Grants and Transfers:					
Grants and Payments	9,460,141	60,000	176,260	0	1,130,749,183
Loan Subsidy Costs	0	0	0	0	631,769,816
Other Program Costs	0	0	0	0	(1,018,526,594)
Total Program Costs	9,460,141	60,000	176,260	(462,157,715)	4,615,888,065
Less: Earned Revenues (Note 15)	0	0	0	462,157,715	(4,540,866,368)
Excess Production Costs Over Revenues	9,460,141	60,000	176,260	0	75,021,697
Net Program Costs	9,460,141	60,000	176,260	0	75,021,697
Costs Not Assigned to Programs					12,323,000
NET COST OF OPERATIONS	$ 9,460,141	$ 60,000	$ 176,260	$ 0	$ 87,344,697

OTHER DISCLOSURES

FUNCTION LEVEL TITLE	SUB FUNCTION LEVEL TITLE	BUDGET SUB FUNCTION CODE	ACTIVITY INCLUDED IN FINANCIAL STATEMENTS PROGRAMS (where applicable)	LOAN/GRANT PROGRAMS INCLUDED IN BUDGET SUB FUNCTION CODE
National Defense	Department of Defense – Military	051	Other	Armament Retooling and Support
Energy	Energy Supply & Conservation	271, 272	Rural Utilities Service	Rural Electric and Telecommunication
National Resources	Water Resources Conservation & Land Management Pollution Control & Abatement	301 302 304	Other	Hazardous Waste Disposal
Agriculture	Agricultural Research and Services	352	Rural Business and Cooperative Services	Conservation loans
Commerce & Housing	Mortgage Credit	371	Rural Housing Service	Single Family Housing (direct & guaranteed) Multi-Family Housing (direct & guaranteed)
Community & Regional Development	Area & Regional Development	452	Rural Housing Service	Rural Community Facility (direct and guaranteed)
			Rural Business and Cooperative Service	Rural Business and Industry (direct and Guaranteed) Rural Economic Development (loans and grants) Rural Development Loan funds
			Rural Utilities Service	Rural Water and Waste (direct and Guaranteed) Rural Telephone Bank Distance Learning and Telemedicine
Income Security	Housing Assistance	604	Rural Housing Service	Domestic Farm Labor Grants Very low-income housing repair grants Construction Defects Rental Assistance Program Other Housing Grants

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 Department of Treasury for the U.S. Government, shows these activities at the function level.

NOTE 15: EARNED REVENUES

Amounts are presented in dollars.

2001

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Other	Intra-Agency Eliminations	Total
With the Public							
Interest Revenue	$ 1,537,124,580	$ 0	$ 891,859,759	$ 1,842,554,812	$ 114,299	$ 0	$4,271,653,450
Other	42,418,240	0	7,041,177	0	0	0	49,459,417
Total	1,579,542,820	0	898,900,936	1,842,554,812	114,299	0	4,321,112,867
Intragovernmental							
Interest Revenue from Treasury	94,524,028	0	114,892,777	49,536,119	35,000	0	258,987,924
Other	275,377,255	27,506,806	121,571,971	32,942,636	258,187	(450,016,263)	7,640,592
Total	369,901,283	27,506,806	236,464,748	82,478,755	293,187	(450,016,263)	266,628,516
Total Earned Revenues	$ 1,949,444,103	$ 27,506,806	$ 1,135,365,684	$ 1,925,033,567	$ 407,486	$ (450,016,263)	$4,587,741,383

NOTE 15: EARNED REVENUES

Amounts are presented in dollars.

2000

	Mortgage Credit	Area & Regional Development	Energy Supply & Conservation	Other	Intra-Agency Eliminations	Total
With the Public						
Interest Revenue	$ 1,414,443,899	$ 926,674,867	$ 1,899,524,571	$ 96,528	$ -	$ 4,240,739,865
Other	19,825,323	8,737,347	15,406	-	-	28,578,076
Total	1,434,269,222	935,412,214	1,899,539,977	96,528	-	4,269,317,941
Intragovernmental						
Interest Revenue from Treasury	89,501,898	108,220,554	42,887,874	-		240,610,326
Other	449,073,550	9,389,447	34,632,819	-	(462,157,715)	30,938,101
Total	538,575,448	117,610,001	77,520,693	-	(462,157,715)	271,548,427
Total Earned Revenues	$ 1,972,844,670	$ 1,053,022,215	$ 1,977,060,670	$ 96,528	$ (462,157,715)	$ 4,540,866,368

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 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 as 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 1J**.

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 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 Service: The two largest loan programs (single-family housing and rural rental & 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 Treasury rate.

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

Rural Utilities Services: Water and Waste loans have a statutory basis for a rate which has a range between less than or equal to 5% to not greater than the current market yield for outstanding municipal obligations of comparable maturities adjusted to the nearest 1/8 of 1%. 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
As the discussion in **Note 1B** attests, the history of Rural Development is one of financial and technical assistance to rural America. 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 Treasury to make loans exceeds the interest income received from borrowers plus any interest income earned from Treasury.

NOTE 16: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Amounts are presented in dollars.

	2001	2000
Prior Period Adjustment Applicable to Salaries & Expenses Entity	$ 0	$ (3,187,022)
Total	$ 0	$ (3,187,022)

NOTE 17: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

- The net amount of budgetary resources obligated for undelivered orders as of September 30, 2001 and 2000, was $16.7 and $15.3 billions, respectively.

- Borrowing authority available as of September 20, 2001 and 2000 amounted to $10.0 and $8.8 billion, respectively.

- *Requirements for repayments of borrowings:* Borrowings are repaid on 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.

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 Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect 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 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.

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

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

	2001	**2000**
Actual Recoveries of Prior Year Obligations	$ 522,254,561	$ 377,830,175
Cancellations of Expired Accounts	(34,597,055)	(30,287,456)
Enacted Rescissions of Current Year Balances	(3,911,000)	(28,653,000)
Redemption of Debt	(4,614,571,868)	(4,236,005,059)
Other Authority Withdrawn	(619,738,678)	(558,572,970)
Total Adjustments	$ (4,750,564,040)	$ (4,475,688,310)

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

Cancellations of expired accounts represent the amount of appropriation authority which is cancelled five years after the expiration of an annual or a multi-year appropriation.

Enacted rescissions of current year balance represent legislation canceling budget authority previously provided by law and prior to the time when the authority would otherwise expire.

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

Other authority withdrawn represents the withdrawal of borrowing authority from no-year accounts through downward adjustments of prior year obligations.

- *Existence, purpose, and availability of permanent indefinite appropriations:* Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability to apportion them and for reestimates related to upward adjustments of subsidy in the program accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as 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 information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

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

  Annual and multi-year authority expire 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.

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

  --Purpose – Funds may be obligated and expended only for the purpose authorized in appropriation acts or other laws.

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

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

  > The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the permanent indefinite appropriations footnote disclosure.
  >
  > Any information about legal arrangements affecting the use of unobligated balances of budget authority will be specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

NOTE 18: DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Amounts are presented in dollars.

	2001	**2000**
Other Resources Used to Fund Items Not Part of the Net Cost of Operations		
Miscellaneous	$ 22,535,151	$ 0
National Sheep Industry Improvement Center Allocation Transfers	3,200,046	0
Total	$ 25,735,197	$ 0

	2001	**2000**
Other Net Cost Components Not Requiring Or Generating Resources During the Reporting Period		
Allocation Transfers of Grant Accounts	$ 22,358,132	$ 0
	$ 22,358,132	$ 0

NOTE 19: DISCLOSURES NOT RELATED TO A SPECIFIC STATEMENT

Amounts are presented in dollars.

	Custodial Activity	
	2001	**2000**
Sources of Collections		
Soil Conservation Service Loan Collections	$ 1,121,371	$ 577,366
General Fund Receipt Accounts	5,291	788
Total Revenue Collected	$ 1,126,662	$ 578,154
Disposition of Collections		
Treasury Receipt Accounts	$ 1,121,371	$ 578,154
Amounts Retained by Agencies	5,291	0
Total Disposition of Revenue	$ 1,126,662	$ 578,154
Net Custodial Activity	$ 0	$ 0

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in dollars.

2001

	Rural Community Advancement Program	Rural Electrification/ Telecommunication Funds	Rural Telephone Bank Funds	Rural Housing Funds	Rental Assistance Programs
Budgetary Resources					
Budget Authority	$ 3,723,401,540	$ 3,716,626,300	$ 163,057,341	$ 2,165,810,305	$ 740,480,000
Unobligated Balances - Beginning of Period	173,326,152	43,055,222	642,651,146	350,146,784	15,224,554
Spending Authority from Offsetting Collections	1,255,308,402	3,633,405,501	292,183,424	3,807,774,480	0
Adjustments	(1,505,147,653)	(1,748,730,139)	(89,855,040)	(1,480,647,293)	(60,689,228)
Total Budgetary Resources	$ 3,646,888,440	$ 5,644,356,884	$ 1,008,036,871	$ 4,843,084,276	$ 695,015,326
Status of Budgetary Resources					
Obligations Incurred	$ 3,435,765,911	$ 5,633,504,213	$ 230,606,932	$ 4,144,704,259	$ 685,859,747
Unobligated Balances-Available	117,494,729	165,198	12,298	464,429,666	7,860,799
Unobligated Balances-Not Available	93,627,800	10,687,473	777,417,641	233,950,351	1,294,780
Total, Status of Budgetary Resources	$ 3,646,888,440	$ 5,644,356,884	$ 1,008,036,871	$ 4,843,084,276	$ 695,015,326
Outlays					
Obligations Incurred	$ 3,435,765,911	$ 5,633,504,213	$ 230,606,932	$ 4,144,704,259	$ 685,859,747
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments	(1,332,419,586)	(3,735,768,898)	(323,285,809)	(3,963,985,488)	(384,530)
Obligated Balance, Net - Beginning of Period	4,327,260,131	5,956,460,867	1,038,743,717	1,092,895,679	2,646,919,674
Less: Obligated Balance, Net - End of Period	(4,695,526,594)	(6,779,088,897)	(1,123,328,441)	(960,317,258)	(2,729,077,203)
Total Outlays	$ 1,735,079,861	$ 1,075,107,285	$ (177,263,601)	$ 313,297,192	$ 603,317,688

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in dollars.

2001

	Rural Housing Grants	Salaries & Expense	Other	Combined Total
Budgetary Resources				
Budget Authority	$ 108,000,000	$ 130,711,251	$ 231,961,063	$ 10,980,047,800
Unobligated Balances - Beginning of Period	11,061,341	54,583,111	29,505,878	1,319,554,188
Spending Authority From Offsetting Collections	1,500,000	457,657,687	78,462,882	9,526,292,376
Adjustments	6,397,850	133,887,340	(5,779,876)	(4,750,564,040)
Total Budgetary Resources	$ 126,959,191	$ 776,839,389	$ 334,149,947	$ 17,075,330,324
Status of Budgetary Resources				
Obligations Incurred	$ 87,844,038	$ 728,360,516	$ 299,919,994	$ 15,246,565,609
Unobligated Balances-Available	39,115,153	(14,882,895)	18,709,729	632,904,678
Unobligated Balances-Not Available	0	63,361,768	15,520,224	1,195,860,037
Total, Status of Budgetary Resources	$ 126,959,191	$ 776,839,389	$ 334,149,947	$ 17,075,330,324
Outlays				
Obligations Incurred	$ 87,844,038	$ 728,360,516	$ 299,919,994	$ 15,246,565,609
Actual Spending Authority from Offsetting Collections and Actual Adjustments	(8,363,284)	(601,106,717)	(83,232,625)	(10,048,546,938)
Obligated Balance, Net - Beginning of Period	99,076,664	99,276,483	240,448,304	15,501,081,519
Obligated Balance, Net - End of Period	(106,948,953)	(123,205,187)	(369,310,309)	(16,886,802,842)
Total Outlays	$ 71,608,465	$ 103,325,095	$ 87,825,364	$ 3,812,297,348

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in dollars.

2000

	Rural Community Advancement Program	Rural Electrification/ Telecommunication Funds	Rural Telephone Bank Funds	Rural Housing Funds	Rental Assistance Programs
Budgetary Resources					
Budget Authority	$ 2,020,640,963	$ 2,660,766,606	$ 154,537,267	$ 2,207,611,024	$ 717,600,000
Unobligated Balances - Beginning of Period	177,683,876	36,129,484	512,466,687	336,647,669	921,805
Spending Authority from Offsetting Collections	912,429,651	3,835,280,445	225,804,066	3,025,982,543	
Adjustments	(217,377,861)	(2,175,409,582)	(30,009,527)	(1,971,287,660)	(63,297,251)
Total Budgetary Resources	$ 2,893,376,629	$ 4,356,766,953	$ 862,798,493	$ 3,598,953,576	$ 655,224,554
Status of Budgetary Resources					
Obligations Incurred	$ 2,720,050,478	$ 4,313,711,731	$ 220,147,347	$ 3,248,806,792	$ 640,000,000
Unobligated Balances-Available	40,283,545		13	321,027,431	13,600,000
Unobligated Balances-Not Available	133,042,606	43,055,222	642,651,133	29,119,353	1,624,554
Total, Status of Budgetary Resources	$ 2,893,376,629	$ 4,356,766,953	$ 862,798,493	$ 3,598,953,576	$ 655,224,554
Outlays					
Obligations Incurred	$ 2,720,050,478	$ 4,313,711,731	$ 220,147,347	$ 3,248,806,792	$ 640,000,000
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments	(990,761,282)	(3,926,338,580)	(304,002,790)	(3,147,160,430)	(1,341,048)
Obligated Balance, Net - Beginning of Period	4,090,737,979	4,798,598,018	979,877,054	1,192,975,720	2,603,926,054
Less: Obligated Balance, Net - End of Period	(4,327,260,130)	(5,956,613,872)	(1,038,743,717)	(1,092,895,680)	(2,657,459,533)
Total Outlays	$ 1,492,767,045	$ (770,642,703)	$ (142,722,106)	$ 201,726,402	$ 585,125,473

REQUIRED SUPPLEMENTARY INFORMATION

Amounts are presented in dollars.

2000

	Rural Housing Grants	Salaries & Expense	Other	Combined Total
Budgetary Resources				
Budget Authority	$ 87,500,000	$ 120,611,000	$ 107,670,166	$ 8,076,937,025
Unobligated Balances - Beginning of Period	19,559,924	72,982,649	46,324,536	1,202,716,630
Spending Authority from Offsetting Collections	2,500,000	494,008,372	51,598,895	8,547,603,972
Adjustments	(10,539,155)	1,778,529	(9,545,803)	(4,475,688,310)
Total Budgetary Resources	$ 99,020,769	$ 689,380,550	$ 196,047,793	$ 13,351,569,317
Status of Budgetary Resources				
Obligations Incurred	$ 87,959,428	$ 634,688,574	$ 164,637,661	$ 12,030,002,011
Unobligated Balances-Available	10,991,094	11,309,458	9,707,633	406,919,174
Unobligated Balances-Not Available	70,247	43,382,518	21,702,499	914,648,132
Total, Status of Budgetary Resources	$ 99,020,769	$ 689,380,550	$ 196,047,793	$ 13,351,569,317
Outlays				
Obligations Incurred	$ 87,959,428	$ 634,688,574	$ 164,637,661	$ 12,030,002,011
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments	(6,683,839)	(519,818,156)	(55,137,807)	(8,951,243,932)
Obligated Balance, Net - Beginning of Period	79,514,571	129,736,215	291,836,287	14,167,201,898
Less: Obligated Balance, Net - End of Period	(99,076,664)	(99,208,510)	(305,618,411)	(15,576,876,517)
Total Outlays	$ 61,713,496	$ 145,398,123	$ 95,717,730	$ 1,669,083,460

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