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

Rural Development
Consolidated Financial Statements
For Fiscal Year 2000

Report No.
85401-1-Ch
FEBRUARY 2001

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: February 16, 2001

REPLY TO
ATTN OF: 85401-1-Ch

SUBJECT: Rural Development's Consolidated
Financial Statements for Fiscal Year 2000

TO: R. Mack Gray
Acting Deputy Under Secretary
for Natural Resources and Environment

ATTN: Leroy Jones
Acting Director
Financial Management Division

This report presents the results of our audit of the Rural Development consolidated financial statements for the fiscal year (FY) ended September 30, 2000. The report contains our qualified opinion on the FY 2000 consolidated statements and the results of our assessment of Rural Development's internal control structure and compliance with laws and regulations.

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 our recommendation. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

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

/s/
ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEAR 2000
AUDIT REPORT NO. 85401-1-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

Our report discusses our qualified opinion on Rural Development's financial statements. Our qualification is due to Rural Development's inability to ensure that the costs of its outstanding direct loan programs are reasonably estimated at over $11 billion. (During the course of our audit, nothing came to our attention to indicate that loans made and related cash balances were materially misstated.) We have reported this problem since fiscal year (FY) 1992. Rural Development and the Office of Inspector General (OIG) continued to work with the Department's Task Force to overcome this issue. However, much work remains.

Our report on Rural Development's internal control structure discusses weaknesses in its support for estimating and reestimating loan subsidy costs, and control weaknesses related to performance measures in Management's Discussion and Analysis.

KEY RECOMMENDATIONS

We recommended that Rural Development develop workable methods and measures to estimate future loan losses for loans made prior to 1992, following a systematic approach, with documented processes and procedures that fully comply with Federal accounting standards. This would include implementing GAO's recommendation to improve the reporting of financially stressed Rural Utility Service loans.

AGENCY POSITION

Rural Development officials generally agreed with the issues and recommendation in this report.

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FISCAL YEAR 2000 (Prepared by Rural Development)**

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: R. Mack Gray
Acting Deputy Under Secretary
for Natural Resources and Environment

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, 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 year (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.

Except as discussed below, 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 provides a reasonable basis for our opinion.

We were unable to obtain sufficient and competent evidential matter to support Rural Development's financial statements and footnote disclosures related to loan allowances and subsidy costs and their impact on “Non-Federal Assets” stated at about $58 billion at September 30, 2000, as well as the related financial statement line items of “Net Position” and “Non-Federal Program Costs” on the Consolidated Balance Sheet and Consolidating Statement of Net Cost, respectively.

Furthermore, we were unable to obtain sufficient and competent evidential matter to support Rural Development's Consolidating Statement of Changes in Net Position, and Combined Statements of Budgetary Resources and Financing. These Statements are impacted by the lack of support for “Non-Federal Assets” described above as they relate to loan allowance and subsidy costs. Accordingly, we determined that it was not practicable to perform further alternate procedures to satisfy ourselves as to (1) the value of any of the financial statement line items on the Consolidating Statement of Changes in Net Position, (2) the value of any of the financial statement line items on the Combined Statements of Budgetary Resources and Financing, and (3) the value of the assets, liabilities, equity, costs and revenues relating to “Non-Federal Assets,” and “Non-Federal Program Costs.”

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to assess the reasonableness of the Consolidating Statement of Changes in Net Position, Combined Statements of Budgetary Resources and Financing, and all financial statement line items and footnotes impacted by “Non-Federal Assets” or “Non-Federal Program Costs”, the 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 of Rural Development as of September 30, 2000; as well as its net costs for the fiscal year then ended.

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 cite two reportable internal control weaknesses and a report on the mission area's compliance with laws and regulations which cites no 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.

/s/
ROGER C. VIADERO
Inspector General

January 12, 2001

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: R. Mack Gray
Acting Deputy Under Secretary
for Natural Resources and Environment

We have audited the accompanying principal financial statements of Rural Development as of and for the fiscal year ended September 30, 2000, and have issued our report thereon, dated January 12, 2001. Except as discussed in our opinion, 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, except as discussed above. 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 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, 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. We concluded that Rural Development’s controls did not adequately ensure the accuracy of performance measures included 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 2000 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) controls for establishing and reestimating loan subsidy costs; (2) Business Program's compliance with all applicable civil rights laws, executive orders, and program requirements; and (3) oversight of the Multi-Family Housing Program to minimize abuse by participants.

Additionally, Rural Development submitted its 2000 Federal Financial Management Improvement Act (FFMIA) remediation plan to provide the details for FMFIA Section 4, Financial Management Systems. Rural Development reported that it was generally in compliance with Section 4, except for the material nonconformance for direct loan systems. The FFMIA report discusses one material nonconformance in Rural Development's financial management systems; impacting direct loan servicing and reporting subsystems. Rural Development's FFMIA remediation plan also discusses noncompliance with OMB Circular A-130, "Management of Federal Information Systems," as well as its inability to prepare financial statements in accordance with applicable accounting standards.

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, OIG audits and other independent auditor reports on financial matters and internal accounting control policies and procedures. Regarding the 2000 FMFIA report, we agree with Rural Development's conclusions that it is generally in compliance with Sections 2 and 4. However, as acknowledged by Rural Development in its 2000 FMFIA report, its direct loan systems are not in compliance with Section 4. This is a material weakness in its financial management systems.

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 Recommendation" section of this report.

FINDINGS AND RECOMMENDATION

I. ALTHOUGH PROGRESS HAS BEEN MADE, CREDIT REFORM PROBLEMS CONTINUE TO SIGNIFICANTLY IMPACT RURAL DEVELOPMENT'S FINANCIAL STATEMENTS AND BUDGET SUBMISSION

FINDING NO. 1

Since FY 1994, we have reported material weaknesses in the processes and procedures used by Rural Development to estimate and reestimate its loan subsidy costs. As we reported last year, during FY 1999 the Department's Chief Financial Officer (CFO) formed a task force under her overall leadership to assist in resolving the Department's longstanding credit reform problems. Progress has been made, including the implementation of a new cash flow model for guaranteed loans, which allowed us to determine the reasonableness of estimated losses on loan guarantees for the first time since FY 1994. However, substantial work remains to be performed, and material weaknesses continue to exist. As a result, we are unable for the seventh consecutive year to assess the reasonableness of Rural Development's allowance for credit program receivables. These same problems also materially impact Rural Development's budget. For example, because we can provide no assurance on Rural Development's financial data, the Congress and other decision makers do not know whether the costs of Rural Development's loan programs, estimated at over $11 billion, can be relied upon.

Effective for FY 1992, the Federal Credit Reform Act (Act) of 1990 required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by this Act to mean the estimated long-term cost to the Government of direct loans 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 Act is to ensure that the subsidy costs of federal loan programs are taken into account in making budgetary decisions.

As noted above, during FY 1999 the Department established a task force to assist in resolving the Department's credit reform problem. The task force includes representatives from Rural Development, Farm Service Agency, OCFO, OIG, and the General Accounting Office (GAO). The task force developed a comprehensive plan to enable it to resolve the credit reform issues by September 30, 2000. Although progress was made by Rural Development during FYs 1999 and 2000, the completion date was moved to September 30, 2001 because the problems were too significant to enable resolution within the original timeframes. Key task force accomplishments include:

- A new cash flow model was developed and approved for the direct community facilities, business and industry, electric, telecommunications, and water and environmental loan programs. A sensitivity analysis was completed to identify the cash flow data that have the most impact on the cost of the programs. Additionally, key cash flow data elements used in the model were verified from the automated system to source documents for material programs.

- A new cash flow model was developed for guaranteed loans, and key cash flow data elements used in the model were verified from the automated systems to source documents for material programs. As previously noted, because of these actions, we were able to test and verify the model results which enabled us to remove our qualification on the financial statement line item "Estimated Losses from Loan Guarantees".

Although OIG determined that the estimated losses on loan guarantees were reasonable, additional analysis needs to be performed by Rural Development in several areas. Details follow.

- Federal accounting standards require that the liability for loan guarantees be reestimated annually whenever material for financial statement reporting; or that an acceptable monitoring process exists to determine whether a reestimate is material to the financial statements as whole. For FY 2000, Rural Development reestimated its guaranteed loan costs for only the two largest loan programs. For future years, Rural Development needs to develop and document a systematic process for performing annual reestimates of all cohorts and/or establish an acceptable monitoring process to demonstrate that material changes have not occurred when annual reestimates are not made.

- Rural Development currently does not capture the date of loan disbursement by the lender, which is when Federal accounting standards call for tracking the subsidy amount associated with the loan. Our review disclosed that this nonconformance, while currently immaterial, could have a material impact on loan subsidy costs for Business and Industry loans in the future. Rural Development needs to capture the date of disbursement or periodically assess the impact of this nonconformance.

- Our audit noted that sometimes estimated and final loss payments occur in different years, and the cash flow model did not accurately represent when the loss occurred. While not currently material, in future years, Rural Development needs to appropriately track and identify these multiple loss payment situations for input to the model.

- The reestimates recorded for the FY 2000 financial statements did not include a "future look", which assesses factors such as forecasted future economic conditions, as required by Federal accounting standards. This needs to be addressed by Rural Development.

OIG also assessed the methodology used to develop the allowances for loans made prior to 1992. The Act allows, but does not require, loans and loan guarantees made before 1992 to be restated on a net present value basis. Rural Development elected to present these loans at net present value when implementing the Act. Our review disclosed the following:

- The Department's task force plans to address the accounting treatment of loans made prior to 1992 in the future. However, to date the pre-1992 loans have not been subject to the same systematic review as the task force performed for loans made after 1992. The systematic review included researching the legislative requirements for loan programs; determining material programs; identifying key cash flow elements for material loan programs; and determining what data was available from automated systems.

- The current methodology does not adequately address a "future look" for all loan programs as required by Federal accounting standards. In general, the methodology consists of determining the present value of projected cash inflows and potential cash outflows based upon mathematically averaging collection and disbursement data extracted from automated loan accounting systems. However, Federal accounting standards require that the same risk factors be considered as for post-1992 loans. These default risk factors should be considered: (1) loan performance experience, (2) current and forecasted economic conditions that may effect loan performance, (3) financial and other relevant characteristics of borrowers, (4) the value of collateral to loan balance, (5) changes in the value of collateral and (6) newly developed events that would affect loan performance.

- Due to the large dollar value of individual electric loans, Rural Development assesses the collectibility of financially stressed electric loans when determining uncollectible amounts. GAO reported in September 2000, (GAO/AIMD–00-288: Impact of RUS' Electricity Loan Restructurings) that improvements could be made to improve the reporting of financially stressed loans. OIG determined that Rural Development had implemented some of GAO's recommendations during FY 2000. For example, we found that program managers coordinated with accountants about estimated cash flows for financially stressed loans; and that these estimates could be traced to supporting documentation. However, Rural Development did not agree with nor implement the recommendation to document procedures used to determine when a borrower should be added or deleted from the list of financially troubled borrowers. The failure to develop and document the criteria for identifying troubled borrowers lessens the likelihood that all such borrowers are appropriately addressed in determining loan allowances for uncollectible amounts.

Although progress was made in FY 2000 toward resolving longstanding credit reform problems, much work remains. Our qualified opinion for the last 7 years means that Rural Development does not know the cost of its operations or any other meaningful measure of financial performance relating to loan costs, defaults, etc. As a result, managers risk making flawed decisions, whether for budget purposes or operationally, when using questionable information.

Because the Departmental task force on credit reform has been addressing problems with determining subsidy costs for loans made after 1991, we are making no recommendations herein. However, with regards to loans made prior to 1992, OIG believes that the methodology used to report these loans on a present value basis can be improved by applying the same processes and reviews as the task force is performing for loans made after 1991. Furthermore, next year OIG plans to continue reviewing how Rural Development estimates losses for loans made prior to 1992.

RECOMMENDATION NO. 1

Develop workable methods and measures to estimate future loan losses for loans made prior to 1992, following a systematic approach, with documented processes and procedures that fully comply with Federal accounting standards. This would include implementing GAO's recommendation to improve the reporting of financially stressed Rural Utility Service loans.

II. INADEQUATE GPRA POLICIES RESULTED IN A LACK OF MEANINGFUL PERFORMANCE MEASURES AND INACCURATE PERFORMANCE RESULTS

FINDING NO. 2

During our audit of the Implementation of the Government Performance and Results Act (GPRA) in Rural Development, Audit No. 50601-2-Ch, we determined that the Management Discussion and Analysis (MD&A) section of Rural Development's FY 2000 financial statements generally did not contain meaningful performance indicators which measured progress toward meeting its performance goals. 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.

Rural Development needed to include outcome oriented performance measures in its MD&A. Although some outcome performance measures were included in the draft MD&A, Rural Development removed five of these measures after it and OIG concluded the measures were not supported. Rural Development should develop outcome-oriented performance measures that are useful for budgetary and management decisions, and demonstrate progress in achieving the agency's major goals and objectives. Proper controls should be in place to ensure the performance measures are quantifiable and reliable. We believe that these problems were caused by Rural Development's failure to adequately plan for GPRA, including the establishment and implementation of written procedures to provide guidance for the measurement, accumulation, verification, and reporting of performance results. Such written procedures, if formulated, would have helped to ensure that results reported were appropriate and accurate.

Because OIG is performing additional GPRA work in Rural Development (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 No. 1 is a material weakness.

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/
ROGER C. VIADERO
Inspector General

January 12, 2001

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: R. Mack Gray
Acting Deputy Under Secretary
for Natural Resources and Environment

We have audited the principal financial statements of Rural Development as of and for the fiscal year ended September 30, 2000, and have issued our report thereon, dated January 12, 2001. Except as discussed in our opinion, 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:

- Agricultural Credit Improvement Act of 1992;
- Agriculture Credit Act of 1987;
- Anti-Deficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990;
- Consolidated Farm and Rural Development Act of 1961, as amended;
- Debt Collection Improvement Act of 1996;
- Federal Agriculture Improvement and Reform Act of 1996;
- Federal Credit Reform Act of 1990;
- Federal Financial Management Improvement Act of 1996;

- Federal Managers' Financial Integrity Act of 1982;
- Food, Agriculture, Conservation, and Trade Act of 1990;
- Food Security Act of 1985;
- Government Management Reform Act of 1994;
- Government Performance and Results Act of 1993;
- Housing Act of 1949, Title V, as amended;
- Real Estate Settlement Procedures Act of 1974, 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 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. As acknowledged by Rural Development, its direct loan systems are not in compliance with FFMIA requirements. This is a material weakness in its financial management systems. Rural Development and OIG plan to jointly review Rural Development’s direct loan financial management systems in the upcoming year. These reviews will assist Rural Development as it moves forward to correct deficiencies that currently prevent full compliance with OMB Circular A-127.

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.

We considered the impact of Rural Development’s material nonconformance for direct loan systems in forming our opinion on whether the FY 2000 principal financial statements of Rural Development are presented fairly, in all material respects, and this report does not modify our opinion on Rural Development’s principal financial statements expressed in our report dated January 12, 2001.

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/
ROGER C. VIADERO
Inspector General

January 12, 2001

ABBREVIATIONS

Act	Federal Credit Reform Act
CFO	Chief Financial Officer
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
OCFO	Office of the Chief Financial Officer
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 2000

- ***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 and may be different from those in year's past as this is a transition year from utilizing the Rural Development Strategic Plan 1997-2002 to the 2000-2005 plan.

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 $82.4 billion, are delivered through a National Office for each agency and approximately 47 state, 266 area, 686 local offices and a Centralized Servicing Center located in St. Louis, Missouri which services the direct single family housing portfolio. The mission area serves approximately 457,325 single family housing borrowers, 15,831 multi-family housing borrowers, 13,257 community and business borrowers, and 1,682 telecommunications, electric, cable TV, and distance learning and telemedicine 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, 2000
Fiscal Years 1998 Through 2000
(Dollars in Billions)

	FY 98	FY 99	FY 00
	Direct Loans		
RHS			
Single Family Housing	$17.1	$16.6	$16.7
Multi-Family Housing	11.9	11.9	11.7
Community Facilities/Other	0.6	0.7	.9
RUS			
Water & Environmental/Other	6.6	6.8	7.2
Electric	28.4	28.1	27.1
Telecommunications	3.7	3.6	3.6
Rural Telephone Bank	1.4	1.2	1.2
RBS			
Business and Industry	0.4	0.5	0.6
Total Direct	70.1	69.4	69.0
	Guaranteed Loans		
RHS			
Single/Multi-Family Housing	6.5	8.8	10.2
Community Facilities/Other	0.1	0.2	0.2
RUS			
Water & Environmental/Other	0.2	0.1	0.1
Electric	0.6	0.4	0.4
RBS			
Business and Industry	1.5	2.1	2.5
Total Guaranteed	8.9	11.6	13.4
Total Loan Portfolio	$79	$81	$82.4

The total loan portfolio balance is slightly higher in FY 2000 than in FY 1999. Increases in the guaranteed portfolio from $11.6 billion to $13.4 billion offset the decline in the direct portfolio to account for the increase in the total loan portfolio in FY 2000.

In FY 2000, Rural Development had an 8.3 percent increase in the number of direct loans obligated. This was primarily due to an increase in the number of Single and Multi-Family Housing loans obligated by the Rural Housing Service.

Comparison of Loan Obligations
Fiscal Years 1998 Through 2000
(Major Program Areas)
(Dollars in Millions)

	FY 98		FY 99		FY 00	
	Total Amount	Total Loans	Total Amount	Total Loans	Total Amount	Total Loans
Direct Loans						
RHS						
Single Family	$1,060	23,219	$1,009	20,869	$1,176	22,706
Multi-Family	71	264	141	274	144	328
Community Facilities	211	424	163	453	199	451
RUS						
Water/Environmental	787	949	721	900	766	909
Electric	925	171	1,567	179	2,064	145
Telecommunications	565	110	461	81	676	91
RBS						
Rural Economic Development Loans	25	62	15	42	15	40
Business & Industry	21	74	26	60	30	54
Intermediary Relending Program	35	47	33	47	38	68
Guaranteed Loans						
RHS						
Single Family	2,822	39,403	2,977	39,752	2,151	29,123
Multi-Family	40	29	75	51	100	53
Community Facilities	65	69	107	118	87	101
RUS						
Water/Environmental	15	14	6	7	11	9
Electric/Tele	(a)	(a)	150	8	53	5
RBS						
Business and Industry	1,171	801	1,244	792	1,027	559

(a) Program not funded in this fiscal year.

The amount of grant obligations for FY 2000 increased for RHS, RBS, and RUS. The increases in RBS and RUS were very slight, but RHS' grant obligations increased 30.7% primarily due to an increase in the Section 504, Rural Housing Very Low Income Housing Repair, and the Community Facilities Grant programs.

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.

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 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) 2000 was 5.36 percent with 46 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.

RHS made a significant change in the way it conducted its business over the last few years. The field offices handle the 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.

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 chart below, the program continues to grow, with a 14 percent increase in the number of borrowers with guaranteed loans between FY 1999 and FY 2000.

	FY 1998	FY 1999	FY 2000
Number of Guaranteed Single Family Housing Loans in Portfolio	110,015	144,695	165,293
Number of Guaranteed Single Family Housing Borrowers in Portfolio	109,979	144,620	165,188
Total Portfolio*	$6.5 billion	$8.8 billion	$10.2 billion

*This is the guaranteed portion only.

The table which follows shows some of the key outcome measures 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.

Key Outcome Measures	Actual FY 2000	GPRA Goal By 2005
Provide credit to rural households to purchase a home	45,420 households	68,000 households
Maintain a first year non-delinquency (currency) rate for SFH customers	97%	97%

Rural Development did not meet its goal for home purchases in FY 2000. Due to higher interest rates in FY 2000 and a slow down in new construction, the housing finance market in general was not as strong nationwide as it had been for the last few years. This impacted the Guaranteed Single Family Housing program resulting in significantly fewer loan originations than expected.

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 2.96 percent for FY 2000. 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 measure:

Key Outcome Measure	Actual FY 2000	GPRA Goal By 2005
Maintain non-delinquency (currency) rate for MFH customers	98%	98%

Community Facilities Programs

Obligations in the Insured Community Facilities program increased by 22.1% percent this year to $199 million.

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.

Key Outcome Measure	Actual FY 2000	GPRA Goal By 2005
Maintain non-delinquency (currency) rate for CF customers	98%	98%

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.

Electric Program

As part of the restructuring of the electric utility industry, Rural Development is ensuring the continued availability of reliable, high-quality electric service at reasonable cost to rural consumers. Electric borrowers have received over $59.5 billion in direct loans and guaranteed loans as of September 30, 2000. During FY 2000, loans and guarantees totaling $2,117 million 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 $5.7 million in loans were repriced and loans totaling $3.3 million were refinanced during the year.

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

Until 1973, almost all Federal financing to electric borrowers was supplied by direct loans at an interest rate of two percent. Since 1973, the agency has made both direct and guaranteed loans.

Since 1973, direct loans have been generally reserved for electric distribution facilities, and most borrowers must obtain 30 percent of their debt financing from a private lender without a federal guarantee. From 1973 until the end of 1993, direct loans had a fixed interest rate of five percent. Since December 1993, there have been two types of direct loans: municipal rate loans and hardship rate loans.

Municipal rate loans have a variable interest rate structure, with rates tied to interest rates on municipal bonds. If the borrower meets certain tests with respect to cost of service and the income of its consumers, the interest rate is capped at seven percent. Borrowers who meet more stringent tests with respect to the high cost of service and low consumer density are eligible for hardship rate loans that have interest rates fixed at five percent.

Loan guarantees may be made for generation, transmission, or distribution facilities. The lender for most loan guarantees is the Federal Financing Bank (FFB), part of the US Department of the Treasury. Interest rates are tied to Treasury's cost of borrowing.

Telecommunications Program

The telecommunications program provides capital, establishes telecommunications standards, and provides policy guidance for rural telecommunications. In the RUS Telecommunications Infrastructure Loan programs, the agency approved $670 million in loans in FY 2000 to 44 borrowers and exhausted all of its Hardship loan funds. Current principal outstanding totals $4.8 billion.

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

The telecommunications program also administers RUS' Distance Learning and Telemedicine (DLT) loan and grant program. In FY 2000, the DLT program made 84 awards to rural educational centers and health care providers totaling over $19.3 million in grants and $6.0 million in loans. Since the inception of the DLT program in 1993, the program has funded 383 projects in 44 states and 4 territories totaling approximately $102.9 million; $96.2 million in grants and $6.7 million in loans.

The telecommunications program is providing many opportunities to rural communities across the United States to receive funding for the purpose of putting advanced telecommunications technologies to work for rural residents. From enhanced educational opportunities over distance learning networks, to life saving procedures through telemedicine, to economic growth utilizing the global digital network, the telecommunications program is wiring rural America to the 21st century. In the deregulated and competitive industry environment, established by the passage of the Telecommunications Act of 1996, the telecommunications program is continuing its efforts toward streamlining its operations and increasing customer service by evaluating key regulatory policies and implementing new initiatives to more efficiently administer its programs. Of particular interest is the agency's efforts to revise and streamline its mortgage and loan contracts. The focus will be to preserve loan security while providing borrowers with flexibility as they enter the newly competitive marketplace.

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 $25 billion in direct loans, loan guarantees, and grants as of September 30, 2000. During FY 2000, $766 million in direct loans, $10.8 million in loan guarantees, and $534 million in grants were approved.

Key Performance Measures	Actual FY 2000	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	278
Provide financial assistance for water and waste systems in the 700 counties with persistently declining populations.	180	179

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.

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) and Rural Business Enterprise Grant (RBEG) Program provide financial assistance to eligible entities including public bodies, nonprofit corporations, Indian tribes, and cooperatives. During FY 2000, RBS introduced the Rural Business Opportunity Grant (RBOG) program. These grants provide financial assistance to public bodies, nonprofit corporations, Indian tribes, and cooperatives for training, planning, and technical assistance for rural economic development in unincorporated areas and rural towns of 10,000 or less population.

The Rural Economic Development (Zero-Interest) Loan (REDL) and Grant Programs provide financial assistance to RBS borrowers to assist in developing rural areas, from an economic standpoint, to create new job opportunities and help retain existing employment.

Performance Measures	Actual FY 2000	GPRA Goal By 2005
Invest Rural Business Enterprise Grant funds in EZ/EC Communities	22.0%	22.0%
Invest Intermediary Relending Program funds in EZ/EC Communities	4.7%	19.0%
Invest B&I Guaranteed Loan Program Funds in EZ/EC Communities	1.4%	1.3%
Maintain a delinquency rate, excluding bankruptcy cases, for guaranteed Business and Industry loans	4.2%	3.0%

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.

Rural Development received a qualified opinion on the September 30, 2000, financial statements. This qualification was issued because documentation for cash flow estimates supporting the subsidy costs associated with the loan programs was not readily available. However, in the course of the audit reviews, there were no indications that the loans made and related cash balances are materially misstated. Rural Development, the Department, OIG, and the General Accounting Office are participating in a workgroup to resolve the credit reform related problems.

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 fiscal year 2000, the Rural Development mission area has determined that our internal controls are generally in compliance 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 2000, we report that, except for the material nonconformance for direct loan systems; the lack of automation for the quarterly loan status reporting for the Guaranteed Rural Housing Program; and the lack of an overall cost accounting system, our financial management/accounting systems generally comply with Office of Management and Budget (OMB) Circular A-127, Financial Management Systems, requirements.

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

ASSETS

Assets for Use By Entity	
Federal:	
Fund Balance with Treasury (Note 2)	$ 7,369,857,042
Accounts Receivable (Note 4)	50,737,943
Total Federal	$ 7,420,594,985
Non-Federal:	
Accounts Receivable, Net (Note 4)	$ 144,016
Credit Program Receivables and Related Foreclosed Property, Net (Note 5)	
Loans Receivable, Gross	68,858,027,950
Interest Receivable, Gross	515,849,426
Foreclosed Property, Gross	62,884,639
Related Allowances (Present Value) for Credit Program Receivables and Foreclosed Property	(11,478,497,726)
General Property, Plant, and Equipment, Net (Note 6)	1,637,179
Other Assets (Note 7)	36,756,235
Total Non-Federal	$ 57,996,801,719
Total Assets For Use By Entity	$ 65,417,396,704
Assets Not For Use By Entity	
Federal:	
Fund Balance with Treasury (Note 2)	$ 393
Accounts Receivable (Note 4)	1,415
Total Federal	$ 1,808
Non-Federal:	
Cash and Other Monetary Assets (Note 3)	$ 51,384,783
Accounts Receivable, Net (Note 4)	35,970
Total Non-Federal	$ 51,420,753
Total Assets Not For Use By Entity	$ 51,422,561
Total Assets	$ 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, 2000
(In Dollars)

LIABILITIES

Liabilities Covered by Budgetary Resources		
Federal:		
Accounts Payable (Note 1M)	$	64,599,507
Interest Payable (Note 9)		752,571,294
Debt (Note 9)		50,670,130,875
Resources Payable to Treasury (Note 1P)		7,581,286,971
Other (Note 10)		9,360,701
Total Federal	$	59,077,949,348
Non-Federal:		
Accounts Payable (Note 1M)	$	2,475,539
Interest Payable (Note 1N)		624,145
Estimated Losses (Present Value) on Loan Guarantees (Note 5)		595,142,443
Debt (Note 9)		90,363,072
Stock Payable to RTB Borrowers (Note 8)		1,062,883,719
Other (Note 10)		130,983,589
Total Non-Federal	$	1,882,472,507
Total Liabilities Covered by Budgetary Resources	$	60,960,421,855
Liabilities Not Covered by Budgetary Resources		
Federal:		
Accrued Federal Employees Compensation Act Bills (Note 1O)	$	5,237,279
Total Federal	$	5,237,279
Non-Federal:		
Annual Leave (Note 1R)	$	31,352,658
Federal Employees Compensation Act Liability (Note 1O)		36,694,362
Other (Note 10)		39,233
Total Non-Federal	$	68,086,253
Total Liabilities Not Covered by Budgetary Resources	$	73,323,532
Total Liabilities	$	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, 2000
(In Dollars)

NET POSITION

Unexpended Appropriations (Note 11)	$ 4,774,700,763
Cumulative Results of Operations	(339,626,885)
Total Net Position	$ 4,435,073,878
Total Liabilities and Net Position	$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 YEAR ENDED SEPTEMBER 30, 2000
(In Dollars)

	MORTGAGE CREDIT	HOUSING ASSISTANCE	AREA & REGIONAL DEVELOPMENT
Costs: (Note: 13)			
Program Costs:			
Federal	$ 1,693,308,520	$ 0	$ 933,125,926
Non-Federal:			
Grants and Transfers	405,497,681	557,597,879	743,983,077
Other Program Costs	(387,752,394)		477,478,156
Total Program Production Costs	$ 1,711,053,807	$ 557,597,879	$ 2,154,587,159
Less Earned Revenues (Note 14)	(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

The accompanying notes are an integral part of these statements.

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

	ENERGY SUPPLY & CONSERVATION	OTHER	INTRA-AGENCY ELIMINATIONS	TOTAL
Costs: (Note: 13)				
Program Costs:				
Federal	$ 1,707,601,979	$ 16,950	$ (462,157,715)	$ 3,871,895,660
Non-Federal:				
Grants and Transfers	45,316,801	10,123,561	0	1,762,518,999
Other Program Costs	(1,108,252,356)	0	0	(1,018,526,594)
Total Program Production Costs	$ 644,666,424	$ 10,140,511	$ (462,157,715)	$ 4,615,888,065
Less Earned Revenues (Note 14)	(1,977,060,670)	(96,528)	462,157,715	(4,540,866,368)
Excess Production Costs Over Revenues	$ (1,332,394,246)	$ 10,043,983	$ 0	$ 75,021,697
Net Program Costs	$ (1,332,394,246)	$ 10,043,983	$ 0	$ 75,021,697
Costs Not Assigned to Programs				12,323,000
NET COST OF OPERATIONS	$ (1,332,394,246)	$ 10,043,983	$ 0	$ 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 YEAR ENDED SEPTEMBER 30, 2000
(In Dollars)

	MORTGAGE CREDIT	HOUSING ASSISTANCE	AREA & REGIONAL DEVELOPMENT
Net Cost of Operations (Note 13)	$ 261,790,862	$ (557,597,879)	$ (1,101,564,943)
Financing Sources (other than exchange revenues):			
Appropriations Used	875,507,335	557,597,879	718,784,847
Other Financing Sources	223,707	0	0
Imputed Financing	52,108,101	0	3,281,200
Transfers-out	(4,237,000)	0	(23,877,721)
Net Results of Operations	$ 1,185,393,005	$ 0	$ (403,376,617)
Net Results Not Affecting Net Position	(1,154,080,661)	0	316,963,955
Prior Period Adjustments **(Note 15)**	(2,903,362)	0	8,808
Net Change in Cumulative Results of Operations	28,408,982	0	(86,403,854)
Increase (Decrease) in Unexpended Appropriations	(201,020,916)	183,939,161	120,899,021
Change in Net Position	$ (172,611,934)	$ 183,939,161	$ 34,495,167
Net Position-Beginning of Period	$ 324,107,398	$ 1,840,593,168	$ 2,099,798,897
Net Position-End of Period	$ 151,495,464	$ 2,024,532,329	$ 2,134,294,064

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 YEAR ENDED SEPTEMBER 30, 2000
(In Dollars)

	ENERGY SUPPLY & CONSERVATION	OTHER	COSTS NOT ASSIGNED TO PROGRAMS	TOTAL
Net Cost of Operations (Note 13)	$ 1,332,394,246	$ (10,043,983)	$ (12,323,000)	$ (87,344,697)
Financing Sources (other than exchange revenues):				
Appropriations Used	170,102,905	10,140,511	0	2,332,133,477
Other Financing Sources	0	0	0	223,707
Imputed Financing	6,126,255	0	12,323,000	73,838,556
Transfers-out	(2,218,223)	0	0	(30,332,944)
Net Results of Operations	$ 1,506,405,183	$ 96,528	$ 0	$ 2,288,518,099
Net Results Not Affecting Net Position	(1,477,232,702)	(96,528)	0	(2,314,445,936)
Prior Period Adjustments (Note 15)	(292,468)	0	0	(3,187,022)
Net Change in Cumulative Results of Operations	28,880,013	0	0	(29,114,859)
Increase (Decrease) in Unexpended Appropriations	(79,038,269)	(9,535,451)	0	15,243,546
Change in Net Position	$ (50,158,256)	$ (9,535,451)	$ 0	$ (13,871,313)
Net Position-Beginning of Period	$ 163,288,717	$ 21,157,011	$ 0	$ 4,448,945,191
Net Position-End of Period	$ 113,130,461	$ 11,621,560	$ 0	$ 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 YEAR ENDED SEPTEMBER 30, 2000
(In Dollars)

Budgetary Resources	
Budget authority	$ 8,076,937,025
Unobligated balances - beginning of period	1,202,716,630
Spending authority from offsetting collections	8,547,603,972
Adjustments	(4,475,688,310)
Total budgetary resources	$ 13,351,569,317
Status of Budgetary Resources	
Obligations incurred	$ 12,030,002,011
Unobligated balances-available	406,919,174
Unobligated balances-not available	914,648,132
Total status of budgetary resources	$ 13,351,569,317
Outlays	
Obligations incurred	$ 12,030,002,011
Less: Spending authority from offsetting collections and adjustments	(8,951,243,932)
Obligated balance, net - beginning of period	14,167,201,898
Less: Obligated balance, net - end of period	(15,576,876,517)
Total outlays	$ 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 YEAR ENDED SEPTEMBER 30, 2000
(In Dollars)

Resources Used to Finance Operations		
Budgetary		
Budgetary Resources Obligated for Items to Be Received or Provided to Others	$	12,030,002,011
Less: Offsetting Collections, Recoveries of Prior-year Authority, and Changes in Unfilled Customer Orders		(8,951,243,932)
Net Budgetary Resources Used to Finance Operations		3,078,758,079
Non-budgetary		
Costs Incurred by Others Without Reimbursements		73,838,556
Other Non-budgetary Resources		1,848
Net Non-budgetary Resources Used to Finance Operations		73,840,404
Total Resources Used to Finance Operations	$	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	$	1,793,536,791
Budgetary Offsetting Collections Not Increasing Earned Revenue or Decreasing Expense		(4,588,527,428)
Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations		3,609,034,553
Resources Funding Expenses Recognized in Prior Periods		(18,306,802)
Resources Financing the Acquisition of Assets or Liquidation of Liabilities		(11,291,598)
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	$	784,445,516
Resources Used to Finance the Net Cost of Operations	$	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 Allocation of Their Cost over Time	$	(2,558,930,664)
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods		278,122,394
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period		(2,280,808,270)
NET COST OF OPERATIONS	$	87,344,697

The accompanying notes are an integral part of these statements.

RURAL DEVELOPMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2000

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 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, 2000, 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 having 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 positions, the restructuring of headquarters ageneies and offices, continued reductions in the numbers 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 100 accounting entities of various compositions and sizes which are used to make various loans and grants. As of September 30, 2000, loan and grant obligations in the amount of $10.0 billion were incurred.

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 a 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 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.

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 principal and interest, and other payments adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries). Consequently, the implementation of Credit Reform has resulted in authorized appropriations which provide for estimated future losses as opposed to 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 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 11)***.

F. Fund Balance with Treasury

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

G. Escrow Disbursement Account

With the implementation of the Centralized Servicing Center on October 1, 1996, 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. The balance in this account as of September 30, 2000, is $51.4 million. This amount has been included in the Consolidated Balance Sheet on the Cash and Other Monetary Assets and Other Liabilities lines ***(Note 3)***.

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.

Approximately $1.2 billion of interest credit and payment subsidy were granted during fiscal year 2000.

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, 2000, there were 1,252 borrowers with a moratorium in effect.

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, 2000, there were 3,901 borrowers which had received delinquency workout agreements.

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 that 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 (credit program receivables) in the portfolio ***(Note 5)***.

Lenders are required to inform Rural Development on the loan status of community program borrowers as of December 31 and June 30, and single family housing borrowers as of December 31, 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, Net Present Value

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. Previously, it was based upon historical data (loan settlement data and acquired property data), current conditions, and an analysis of borrowers' financial condition.

The weighted-average discount rate used in determining the net present value of single family housing loans was 8.716%, multiple family housing loans was 8.716%, community facility and water and waste loans was 13.778%, electric loans was 5.755%, telephone loans was 4.132%, and RTB loans was 7.654%. The weighted-average borrower rates on these loans were 7.34%, 3.07%, 5.46%, 6.363%, 4.580%, and 6.98%, respectively.

The liability for loan guarantees 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 estimate 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 discount rate used in determining the net present value of single family housing guaranteed loans was 6.0%; business and industry, community facility, and water and waste guaranteed loans was 6.25%.

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 and Equipment

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. Equipment purchased after February 1994 is capitalized at cost if the initial cost is $5000 or more. Prior to that, equipment was capitalized at cost if the initial cost was $1000 or more. Currently, equipment costing less than $5000 is expensed when purchased. Equipment is depreciated using the straight line method.

M. 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.

N. 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.

O. Federal Employees' 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.

P. 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 & 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 financial statements.

Q. 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.

R. Intragovernmental Financial Activities

The Rural Development mission area 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 in net position, and the statement of financing.

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

The 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.

Agency and matching contributions to retirement programs during fiscal year 2000 was approximately $36 million.

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.

S. 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: FUND BALANCE WITH TREASURY

	Obligated	Unobligated		Total
		Available	Expired Authority	
		(In Dollars)		
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.

As reported on the Balance Sheet, the Total Fund Balance with Treasury represents an asset for use by Rural Development in its day-to-day operations except for $393 which is considered an asset not for use by Rural Development.

NOTE 3: CASH AND OTHER MONETARY ASSETS

	Assets Not For Use By Entity	Total
	(In Dollars)	
Cash	$ 51,384,783	$ 51,384,783
Total Cash and Other Monetary Assets	$ 51,384,783	$ 51,384,783

See **Note 1G** for a description of this restricted cash.

NOTE 4: ACCOUNTS RECEIVABLE

	Assets For Use By Entity	Assets Not For Use By Entity	Total
		(In Dollars)	
Federal			
Salaries & Expenses	$ 50,737,943	$ 1,415	$ 50,739,358
Total Federal	$ 50,737,943	$ 1,415	$ 50,739,358
Non-Federal			
Salaries and Expenses	$ 144,016	$ 35,970	$ 179,986
Total Non-Federal	$ 144,016	$ 35,970	$ 179,986
Total Accounts Receivable	$ 50,881,959	$ 37,385	$ 50,919,344

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

NOTE 5: CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET PRESENT VALUE

Loans Subject to Credit Reform:

	Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Credit Program Receivables (Present Value)	Credit Program Receivables, (Net Present Value)
			(In Dollars)		
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

This summary schedule is calculated from the detail amounts shown in the following sections and the first 4 column totals are readily traceable to the Consolidated Balance Sheet.

Accounting Policy - Present Value Disclosures:

As previously discussed in ***Note 1***, 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. That Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the loan or loan guarantee is made. 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:

	Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Credit Program Receivables (Present Value)	Credit Program Receivables, (Net Present Value)
			(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:

	Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Credit Program Receivables (Present Value)	Credit Program Receivables, (Net Present Value)
			(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

Liability for Loan Guarantees:

	Liabilities For Pre-1992 Loan Guarantees (Present Value)	Liabilities for Post-1991 Loan 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

Guaranteed Loans Outstanding:

	Pre-1992 Outstanding Guaranteed Principal (Face Value)	Post-1991 Outstanding Guaranteed Principal (Face Value) (In Dollars)	Total Outstanding Guaranteed Principal (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

	Pre-1992 Outstanding Guaranteed Principal	Post-1991 Outstanding Guaranteed Principal (In Dollars)	Total Outstanding Guaranteed Principal
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

Subsidy Expense for Post-1991 Credit Program Receivables:

Current Year's Direct Loans

	Interest Differential	Defaults	Fees	Other	Total Current Year's Direct Loans	FY '00 Direct Loan Reestimates	Total Direct Loan Subsidy Expenses
***Rural Housing Service*:**							
RHIF	$ 171,321,499	$ 20,569,310	$ (102,341,848)	$ 80,071,033	$ 169,619,994	$ 0	$ 169,619,994
RCFL	16,176,402	1,009,320	0	(654,694)	16,531,028	0	16,531,028
***Rural Utilities Service*:**							
RETRF:							
Electric	42,180,608	(364,774)	0	764,627	42,580,461	(1,796,691)	40,783,770
Telephone	3,612,114	232,353	0	1,108,816	4,953,283	(421,532)	4,531,751
RTB	219,151	6,849	0	95,879	321,879	(360,000)	(38,121)
RWWDL	88,931,538	348,239	0	(3,047,092)	86,232,685	0	86,232,685
DLML	187	19	0	12	218	0	218
***Rural Business and Cooperative Service*:**							
RDLF	20,819,112	14,358	0	(47,860)	20,785,610	0	20,785,610
RBIL	0	0	0	0	0	0	0
REDS	2,951,325	22,340	0	(116,663)	2,857,002	0	2,857,002
Total	$ 346,211,936	$ 21,838,014	$ (102,341,848)	$ 78,174,058	$ 343,882,160	$ (2,578,223)	$ 341,303,937

The percentage rate used to break out the 4 components of subsidy is based on the reestimation rates for fiscal year 2000.

Subsidy Expense for Post-1991 Loan Guarantees:

Current Year's Loan Guarantees

	Interest Supplement	Defaults	Fees	Other	Total Current Year's Loan Guarantees	FY '00 Loan Guarantee Reestimates	Total Loan Guarantee Subsidy Expenses
***Rural Housing Service*:**							
RHIF	$ 5,089,291	$ 33,394,886	$ (26,185,299)	$ 0	$ 12,298,878	$ 179,430,000	$ 191,728,878
RCFL	0	121,781	(324,749)	(12,178)	(215,146)	0	(215,146)
***Rural Utilities Service*:**							
RWWDL	0	0	0	0	0	(204,721)	(204,721)
***Rural Business and Cooperative Service*:**							
RBIL	0	47,392,293	(15,316,901)	(2,432,684)	29,642,708	69,087,000	98,729,708
ARMY	0	758,390	(289,600)	(41,630)	427,160	0	427,160
Total	$ 5,089,291	$ 81,667,350	$ (42,116,549)	$ (2,486,492)	$ 42,153,600	$ 248,312,279	$ 290,465,879

The percentage rate used to break out the 4 components of subsidy is based on the reestimation rates for fiscal year 2000.

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). As of September 30, 2000, Rural Housing Service properties consist primarily of 1,233 rural single family dwellings. The average holding period for single family housing properties in inventory for fiscal year 2000 was 18.8 months. The approximate number of borrowers for which foreclosure proceedings were in process at the end of fiscal year 2000 was 29,700. Certain properties can be leased to eligible individuals.

Other

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

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, NET

This equipment generally represents computer hardware, software, and other office equipment used in the Rural Development mission area's network of offices and is considered Existing General Property, Plant, and Equipment.

Classes	Cost	Accumulated Depreciation	Book Value (In Dollars)	Estimated Useful Life	Method of Depreciation
Personal Property					
Equipment	$ 4,538,635	$ (2,909,299)	$ 1,629,336	1-5	SL
	$ 4,538,635	$ (2,909,299)	$ 1,629,336		
Real Property					
Buildings	$ 1,707	$ 0	$ 1,707	6-10	SL
Other	7,340	(1,204)	6,136	1-5	SL
	$ 9,047	$ (1,204)	$ 7,843		
Total	$ 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.

Other Assets For Use By Entity

Non-Federal

Investment in Loan Asset Sale Trust	$ 34,614,488
Other	2,141,747
Total Non-Federal	$ 36,756,235
Total Other Assets For Use By Entity	$ 36,756,235
Total Other Assets	$ 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: STOCK PAYABLE TO RTB BORROWERS

		Non-Current (In Dollars)
Non-Federal		
B Stock Payable	$	718,046,719
C Stock Payable		344,837,000
Total	$	1,062,883,719

These liabilities are covered by budgetary resources.

Capital Stock Class B:
Class B stock, a voting class of stock, is issued only to borrowers of RTB, in proportion to actual loan advances. RTB requires borrowers to purchase Class B stock in the amount of 5 percent of advanced loan amounts. Class B stock is nontransferable, except in connection with a transfer of ownership, approved by RTB, of all or part of a RTB loan. A borrower may exchange Class B stock for Class C stock 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, Net Position**, in the Rural Telephone Bank Financial Statements which is issued under separate cover.

NOTE 9: DEBT

	Beginning Balance	New Borrowings	Repayments	Ending Balance
		(In Dollars)		
Agency Debt				
Interest Bearing:				
Held by the Public	$ 10,104,738	$ 0	$ (8,286,666)	$ 1,818,072
Notes Payable	256,233,226	0	(167,688,226)	88,545,000
Total Agency Debt	$ 266,337,964	$ 0	$ (175,974,892)	$ 90,363,072
Other Debt				
Interest Bearing:				
Debt to the Treasury	$ 16,675,853,084	$2,613,132,580	$ (594,157,041)	$ 18,694,828,623
Debt to the Federal Financing Bank (FFB)	29,018,878,492	639,238,108	(3,395,644,117)	26,262,472,483
Total	$ 45,694,731,576	$3,252,370,688	$(3,989,801,158)	$ 44,957,301,106
Non-Interest Bearing:				
Debt to the Treasury	$ 5,927,829,769	$ 0	$ (215,000,000)	$ 5,712,829,769
Total	$ 5,927,829,769	$ 0	$ (215,000,000)	$ 5,712,829,769
Total Other Debt	$ 51,622,561,345	$3,252,370,688	$(4,204,801,158)	$ 50,670,130,875
Total Debt	$ 51,888,899,309	$3,252,370,688	$(4,380,776,050)	$ 50,760,493,947

Classification of Debt	
Federal	$50,670,130,875
Non-Federal	90,363,072
Total	$50,760,493,947

Agency and other debt is covered by budgetary resources. The outstanding debt, as of September 30, 2000, for RHS, RUS, and RBS follows: $15 billion, $35.5 billion, and $.3 billion, respectively.

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. During fiscal year 2000, approximately $2.3 billion of FFB loans were repriced or refinanced.

In conjunction with certain RUS troubled debt restructurings, Rural Development has assumed notes payable to non-federal entities approximating $89 million 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 2024.

Supplemental information associated with fiscal year 2000 debt follows:

Amounts are presented in dollars.

Interest Payable, Federal	
Federal Financing Bank	$ 697,814,923
U.S. Treasury	54,756,371
Total	$ 752,571,294
Interest Expense, Federal	
Federal Financing Bank	$ 2,348,873,365
U.S. Treasury	1,319,196,982
Total	$ 3,668,070,347

NOTE 10: OTHER LIABILITIES.

	Current	Non-Current (In Dollars)	Total
Liabilities Covered by Budgetary Resources			
Federal			
Employer Contributions & Payroll Taxes Payable	$ 3,055,319	$ 0	$ 3,055,319
Other Accrued Liabilities (S&E)	6,305,382	0	6,305,382
	$ 9,360,701	$ 0	$ 9,360,701
Non-Federal			
Accrued Funded Payroll and Leave	20,966,134	$ 0	20,966,134
Dividends Payable	18,006,399	0	18,006,399
Trust & Deposit Liabilities	53,849,740	0	53,849,740
Other Accrued Liabilities (S&E)	32,862,432	0	32,862,432
Other	(10,253,035)	15,551,919	5,298,884
	$115,431,670	$ 15,551,919	$ 130,983,589
Total Liabilities Covered by Budgetary Resources	$124,792,371	$ 15,551,919	$ 140,344,290

	Current	Non-Current (In Dollars)	Total
Liabilities Not Covered by Budgetary Resources			
Non-Federal			
Custodial Liability (S&E)	$ 39,233	$ 0	$ 39,233
	$ 39,233	$ 0	$ 39,233
Total Liabilities Not Covered by Budgetary Resources	$ 39,233	$ 0	$ 39,233
Total Other Liabilities	$ 124,831,604	$ 15,551,919	$ 140,383,523

NOTE 11: UNEXPENDED APPROPRIATIONS

Amounts are presented in dollars.

<u>Unexpended Appropriations</u>	
Unobligated, Available	$ 176,280,318
Unobligated, Unavailable	43,382,518
Undelivered Orders	4,555,037,927
Total Unexpended Appropriations	$ 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. As of September 30, 2000, RTB Class A stock appropriations amounted to $592.1 million. 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, 2000, in accordance with Bank Board resolution 2000-6, the fifth redemption of Class A stock, in the amount of $25.1 million occurred, leaving a balance of $476.7 million outstanding, 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 12: COMMITMENTS AND CONTINGENCIES

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, 2000, rent expense was $17.1 million. Future lease payments to GSA should approximate this amount.

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

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

NOTE 13: SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

(Amounts are presented in dollars)

	Mortgage Credit	Housing Assistance	Area & Regional Development
COSTS (NOTE: 13)			
Program Costs:			
Federal	$ 1,693,308,520	$ 0	$ 933,125,926
Non-Federal:			
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 Production Costs	$ 1,711,053,807	$ 557,597,879	$ 2,154,587,159
Less Earned Revenues (Note 14)	(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
Cost Not Assigned to Programs			
NET COST OF OPERATIONS	$ (261,790,862)	$ 557,597,879	$ 1,101,564,943

NOTE 13: SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

(Amounts are presented in dollars)

	Energy Supply & Conservation	Department of Defense - Military	Water Resources
COSTS (NOTE: 13)			
Program Costs:			
Federal	$ 1,707,601,979	$ 16,950	$ 0
Non-Federal:			
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 14)	(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 13: SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

(Amounts are presented in dollars)

	Agricultural Research & Services	Conservation & Land Management	Pollution Control and Abatement	Intra-Agency Eliminations	Consolidated Total
COSTS (NOTE: 13)					
Program Costs:					
Federal	$ 0	$ 0	$ 0	$ (462,157,715)	$ 3,871,895,660
Non-Federal:					
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 Production Costs	9,460,141	60,000 $	176,260	$ (462,157,715)	$ 4,615,888,065
Less Earned Revenues (Note 14)	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

The list below contains budget functional classification codes and titles used in preparing the Statement of Net Cost and the related footnote.

FUNCTION LEVEL TITLE	SUB FUNCTION LEVEL TITLE	BUDGET FUNCTIONAL CLASSIFICATION CODE
National Defense	Department of Defense – Military	051
Energy	Energy Supply & Conservation	271,272
Natural Resources	Water Resources Conservation & Land Management Pollution Control & Abatement	301 302 304
Agriculture	Agricultural Research and Services	352
Commerce & Housing	Mortgage Credit	371
Community & Regional Development	Area & Regional Development	452
Income Security	Housing Assistance	604

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 14: EARNED REVENUES

(Amounts are presented in dollars.)

	MORTGAGE CREDIT	AREA & REGIONAL DEVELOPMENT	ENERGY SUPPLY& CONSERVATION	OTHER	INTRA-AGENCY ELIMINATIONS	TOTAL
Non-Federal						
Interest Revenue	$ 1,414,443,899	$ 926,674,867	$ 1,899,524,571	$ 96,528	$ 0	$ 4,240,739,865
Other	19,825,323	8,737,347	15,406	0	0	28,578,076
Total Non-Federal	$ 1,434,269,222	$ 935,412,214	$ 1,899,539,977	$ 96,528	$ 0	$ 4,269,317,941
Federal						
Interest Revenue from Treasury	$ 89,501,898	$ 108,220,554	$ 42,887,874	$ 0	$ 0	$ 240,610,326
Other	449,073,550	9,389,447	34,632,819	0	(462,157,715)	30,938,101
Total Federal	$ 538,575,448	$ 117,610,001	$ 77,520,693	$ 0	$ (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 with a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both federal and non-federal sources. For a further discussion of present value refer to **Note 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 other 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 of 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 15: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Prior Period Adjustment

Represents expenses of the Salaries & Expenses entity in the amount of $(3,187,022).

NOTE 16: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Amounts are presented in dollars.

- The net amount of budgetary resources obligated for undelivered orders as of September 30, 2000, is $15.3 billion.

- The amount of borrowing authority available as of September 30, 2000 is $8.8 billion.

- *Requirements for repayments of borrowings*: Borrowings are repaid on form SF 1151, Nonexpenditure Transfer Authorization, as maturity dates become due. For liquidating accounts, maturity dates are one working day prior to the anniversary date of the note. For financing accounts, maturity dates are based on the period of time used in the subsidy calculation, not the contractual term of the agency's loans to borrowers. This period of time used in the subsidy calculation will normally be longer than the contractual term of the agency's loans to borrowers.

  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 all 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*:

Actual Recoveries of Prior Year Obligations	$ 377,830,175
Cancellations of Expired Accounts	(30,287,456)
Enacted Rescissions of Current Year Balance	(28,653,000)
Redemption of Debt	(4,236,005,059)
Other Authority Withdrawn	(558,572,970)
Total Adjustments	$ (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 purposes authorized the appropriations acts or other laws.

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

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

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

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

NOTE 17: DISCLOSURES NOT RELATED TO A SPECIFIC STATEMENT

(Amounts are presented in dollars).

Custodial Activity

Sources of Collections	
Soil Conservation Service Loan Collections	$ 577,366
General Fund Receipt Accounts	788
Total Revenue Collected	$ 578,154
Disposition of Collections	
Treasury Receipt Accounts	$ 578,154
Total Disposition of Revenue	$ 578,154
Net Custodial Activity	$ 0

REQUIRED SUPPLEMENTARY INFORMATION

(Amounts are presented in dollars.)

	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	0
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	0	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.

	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