USDA

U.S. Department of Agriculture
Rural Utilities Service
Informational Publication 400-2

Focusing on the Future

Rural Telephone Bank

2000 Annual Report

May 2001

The Honorable Ann M. Veneman
Secretary of Agriculture
U.S. Department of Agriculture
Washington, DC 20250

Dear Secretary Veneman:

This report covers the activities of the Rural Telephone Bank for fiscal year 2000. It is respectfully submitted, on behalf of the Bank's Board of Directors, for transmittal to the Congress pursuant to section 405(i) of the Rural Electrification Act of 1936, as amended.

Sincerely,

Blaine D. Stockton
Acting Governor

Rural Telephone Bank

2000 Annual Report

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Management

Blaine D. Stockton…………………………………………………………………….Acting Governor
Roberta D. Purcell……………………………………………………………………..Assistant Governor
Jonathan P. Claffey……………………………..Deputy Assistant Governor & Assistant Secretary
Kenneth Ackerman……………………………………………………………….……Assistant Treasurer
Cheryl L. Gamboney……………………………………………………………..……..Financial Analyst

Message from the Governor

Providing quality customer service has traditionally been a top priority and a strength for the Rural Telephone Bank (Bank). As borrower needs evolve, we will continue to redefine our relationships with those we serve. The needs of our borrowers are different today than in the past – and we are expanding our options to help meet those needs.

The telecommunications industry is becoming increasingly competitive. At the same time, changes in overall business trends and technologies continue to place pressure on Bank-financed systems to offer a wider array of services and to operate more efficiently. The Rural Utilities Service has been instituting significant policy and regulatory reforms to ensure that the Bank is an engine of broadband development. The most expeditious way to bring the full range of telecommunications services to rural areas is to make certain providers of advanced services, in addition to providers of local exchange services, are eligible for Bank financing. As such, new regulations have been implemented that enable the financing of all advanced telecommunications services, including mobile wireless service, to carriers serving unserved areas and underserved areas where existing service, if available at all, is inadequate to meet the infrastructure needs of today's evolving industry. Without this investment, millions will suffer with unreliable service or service that will not support the features of modern telecommunications technology. As we move forward in this dynamic, fast-paced environment, Bank financing will be used to aggressively target unserved and underserved areas in an effort to bring as many people and communities on to the global network as possible.

The Bank enacted another exciting policy change during the year – a new stock conversion policy. Stockholders may now convert a portion of their class B stock earned as patronage refunds to class C stock *before* full repayment of their outstanding indebtedness. In the past, all Bank debt had to be fully repaid before a stockholder could make any conversions to class C stock. This policy will help to lower a borrower's overall cost of capital, since class C stock earns an annual cash dividend. In fiscal year 2000, stockholders converted $21.7 million to class C stock. This new policy is a success thanks to the leadership efforts of the Board of Directors.

Also in 2000, the Bank's website was updated to provide information on the Bank and its lending policies, Board members, Board meetings, industry issues, and other RUS programs that may be of interest to Bank borrowers. The website allows borrowers and potential borrowers to contact Bank staff at any time during the day or week.

As we move forward and address many of the critical issues facing the rural telecommunications industry, the Bank will continue to play a vital role in ensuring that access to reasonable sources of capital remains available to carriers continuing to invest in our rural communities futures!

As always, we appreciate your support and commitment to rural America.

Sincerely,

Blaine D. Stockton
Acting Governor

Board of Directors *as of September 30, 2000*

Representing Cooperative-Type Stockholders

David Crothers
Executive Vice President and General Manager of the North Dakota Association of Telephone Cooperatives; member since 1998; serves on the privatization committee; term expires in 2002.

John McAllister, *Treasurer*
President of West Carolina Rural Telephone Cooperative, Inc.; member since 1974; serves on the privatization committee; term expires in 2002.

Larry E. Sevier
Chief Executive Officer of Rural Telephone Service Company, Inc.; member since 1994; serves on the privatization committee; term expires in 2002.

Representing Commercial-Type Stockholders

John T. Dillard
President and General Manager of Monroe Telephone Company; member since 1998; serves on the privatization committee; term expires in 2002.

S. Michael Jensen
Chief Executive Officer of Great Plains Communications, Inc.; member since 1992; serves on the privatization committee; term expires in 2002.

Curtis S. Sampson, *Secretary*
Chairman and Chief Executive Officer of Hector Communications, Inc.; member since 1988; serves on the privatization committee; term expires in 2002.

Representing the U.S. Department of Agriculture

Jill Long Thompson, *Chairwoman
Former Under Secretary for Rural Development, USDA; appointed to the Board in 1995.

***Michael V. Dunn**
Former Under Secretary for Marketing and Regulatory Programs, USDA; appointed to the Board in 1995.

***Dr. I. Miley Gonzalez**
Former Under Secretary for Research, Education, and Economics, USDA; appointed to the Board in 1998.

***Sharron Harris**
Former Director of the Office of Small Disadvantaged Business Utilization, USDA; appointed to the Board in 1993.

***Carl S. Whillock**
Former Special Assistant to the President for Agriculture and Trade; appointed to the Board in 1998.

Representing the Public

Jimmie Lou Fisher, *Vice Chair
State Treasurer for the state of Arkansas; appointed to the Board in 1995.

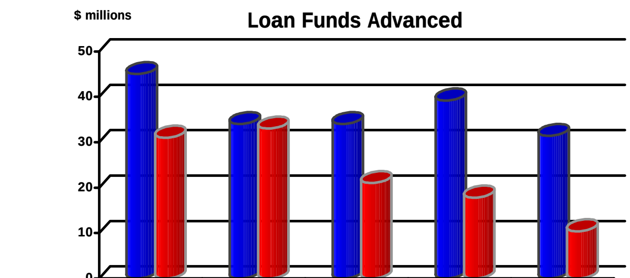
Robert Lee Stanton
Farmer and businessman from Missouri; appointed to the Board in 1995.

* A member until January, 2001.

Fiscal Year 2000 Highlights

Loan Funds Advanced

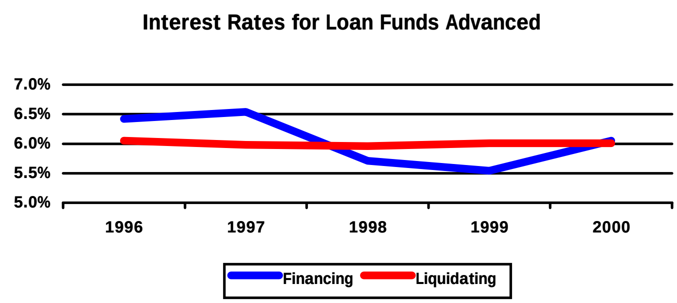
The Federal Credit Reform Act of 1990 restructured the methodology by which the Bank obtains and advances loan funds. Specifically, Credit Reform "divided" the Bank's loan program by accounting for loans made before fiscal year 1992 (liquidating account loans) differently from loans made during and after fiscal year 1992 (financing account loans). The Bank advanced $41.8 million in funds to borrowers in fiscal year 2000; $10.4 million in liquidating account loans and $31.4 million in financing account loans. Over the last five years, Bank advances have averaged $59.2 million annually.



	1996	1997	1998	1999	2000
Financing	45	34	34	39.2	31.4
Liquidating	31	33	21	17.8	10.4

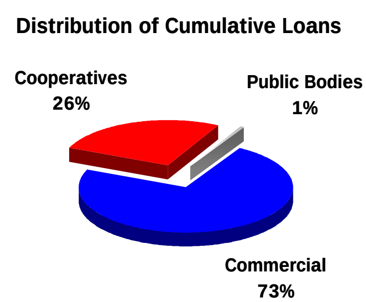
Interest Rates for Loan Funds Advanced

In addition, Credit Reform results in two interest rates for loan funds advanced to borrowers after fiscal year 1991. The interest rate for variable rate loans approved prior to fiscal year 1992 and advanced in fiscal year 2000 was 6.01 percent (liquidating), the rate for loans approved during fiscal years 1992 through 2000 and advanced in fiscal year 2000, was 6.05 percent (financing).



Cumulative Loans

New Bank loans during fiscal year 2000 totalled $175.0 million. Bank loans since inception, net of rescissions as of September 30, 2000, totalled $2.8 billion to commercial company borrowers, $1.0 billion to cooperative borrowers, and $21.2 million to public body borrowers.



Repaid Principal and Interest

During fiscal year 2000, borrowers paid $86.6 million in principal and $81.4 million in interest. The interest figure includes $400.0 thousand in prepayment premiums. As of fiscal year ending 2000, payments made to the Bank amounted to $1,596.2 million in principal and $2,301.4 million in interest.

Cumulative Total Payments of Principal and Interest

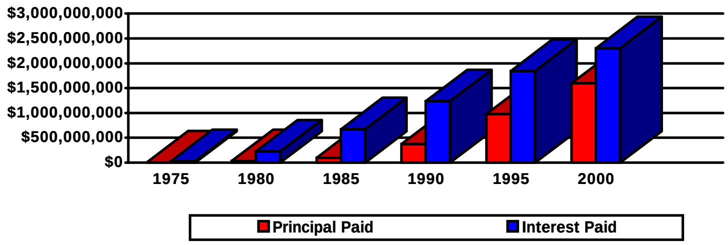
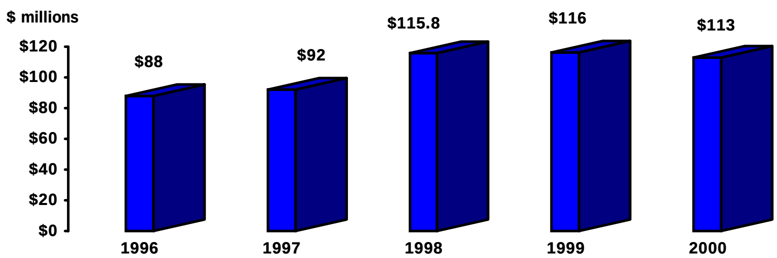


Chart includes notes paid in full and interest paid includes prepayment premiums.

Interest Income and Patronage Capital Assignable

Restricted capital and patronage capital at the end of fiscal year 2000 totaled $95.0 million. During fiscal year 2000, interest and other income was $139.0 million. Expenses amounted to $26.0 million, leaving an excess of revenues and other financing sources over total expenses of $113.0 million. A return of $10.0 million paid to the U.S. Treasury and a cash dividend of $18.0 million paid to Class C stockholders resulted in patronage capital assignable of $85.0 million.

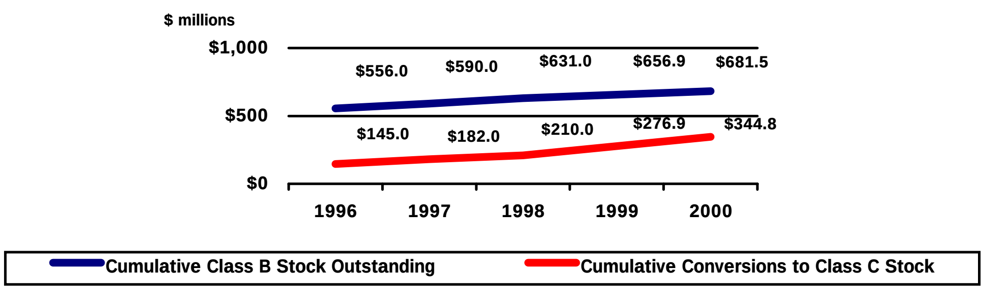
Excess of Revenue and Other Sources Over Total Expenses



Dividends and Patronage Refunds

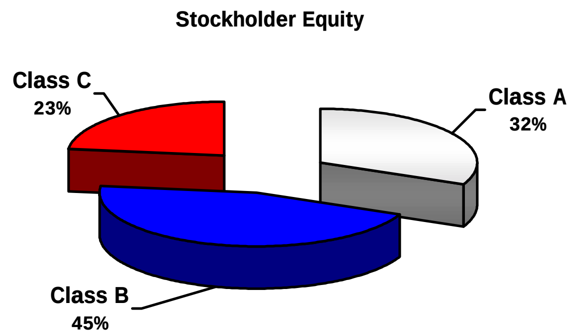
Ownership of the Bank, in addition to the U.S. Government, is shared by borrowers, former borrowers, and other related organizations authorized to invest. The Bank operates on a cooperative basis and earnings, in excess of the annual return of two percent required on the Government's investment in Class A stock, are returned to the non-Government owners as patronage refunds. The Bank Board of Directors declared a cash dividend of 5.65 percent on Class C stock at its August 4, 2000 meeting. This represented the 28th consecutive annual dividend by the Bank. Until all Class A stock is retired, the dividend rate on Class C stock cannot be greater than the average interest rate payable on the Bank's outstanding debt-that rate was 6.58 percent at the time the dividend was declared. A patronage refund was also declared for fiscal year 2000.

Non-Federal Investment of Others



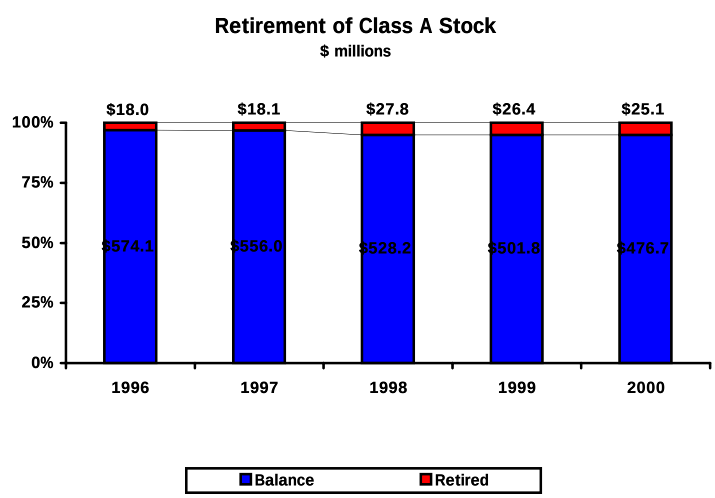
Stock Sales

Bank borrowers purchased $2.0 million in Class B stock, bringing the cumulative total purchased to $133.0 million. Total Class B stock outstanding, including patronage refunds and net of amounts converted to Class C stock, increased by $24.6 million during fiscal year 2000, to $681.5 million. Cumulative Class C stock rose to $344.8 million, an increase of $67.9 million during fiscal year 2000.



Stock Redemption

No additional Class A stock was purchased by the Government during fiscal year 2000. The cumulative total of Class A stock purchases to date is $592.1 million. In accordance with Board Resolution 2000-6, $25.1 million in Class A stock was redeemed on September 30, 2000; leaving a net outstanding of $476.7 million. This was the fifth consecutive annual redemption of Class A stock.



Limitation on Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the Bank, pursuant to the requirements of the Chief Financial Officers Act of 1990 and 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Bank 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 for 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.

Financial Statements

BALANCE SHEET
(in dollars)

	As of September 30, 2000
ASSETS	
Assets for Use by Entity:	
Federal	
Fund Balance with Treasury (Note 2)	$ 776,171,844
Non-Federal	
Credit Program Receivables, Net (Note 3)	1,156,914,117
Total Assets	$ 1,933,085,961
LIABILITIES	
Liabilities Covered by Budgetary Resources:	
Federal	
Accounts Payable	$ 5,642,000
Debt (Note 4)	295,202,110
Non-Federal	
Other Liabilities (Note 5)	18,129,342
Total Liabilities	318,973,452
COMMITMENTS AND CONTINGENCIES (Note 6)	
NET POSITION (Note 7)	
Unexpended Appropriations	19,812,242
Federal	
Equity of the U.S. Government	
Capital Stock Class A	476,700,500
Subsidy Re-estimates	(4,054,000)
Total Equity of the U.S. Government	472,646,500
Non-Federal	
Investment of Others	
Capital Stock Class B	681,518,810
Capital Stock Class C	344,837,000
Restricted Capital	9,912,183
Patronage Capital Earned	85,385,774
Total Investment of Others	1,121,653,767
Total Net Position	1,614,112,509
Total Liabilities and Net Position	$ 1,933,085,961

STATEMENT OF BUDGETARY RESOURCES
(in dollars)

	As of September 30, 2000
Budgetary Resources: (Note 9)	
Budget Authority	$ 154,537,267
Unobligated balances - beginning of period	512,466,687
Spending Authority from offsetting collections	225,804,066
Adjustments	(30,009,527)
Total budgetary resources	$ 862,798,493
Status of Budgetary Resources:	
Obligations incurred	$ 220,162,197
Unobligated balances-not available	642,636,296
Total, status of budgetary resources	$ 862,798,493
Outlays:	
Obligations incurred	$ 220,162,197
Less: actual spending authority from offsetting collections and actual adjustments	(304,002,790)
Obligated balance, net - beginning of period	979,877,054
Less: obligated balance, net - end of period	(1,038,758,567)
Total outlays	$ (142,722,106)

The accompanying Notes are an integral part of these statements.

STATEMENT OF NET COST

(in dollars)

		For the Year Ended September 30, 2000
Costs: Program Costs		
Federal		$ 27,714,197
Non-Federal		
Loans - Subsidy Expense (Note 3)		(38,121)
Other Program Costs		1,180,754
	Total Program Production Costs	28,856,830
Less Earned Revenues (Note 8)		(139,271,774)
Net Cost of Operations		$ (110,414,944)

STATEMENT OF CHANGES IN NET POSITION

(in dollars)

	For the Year Ended September 30, 2000
Net Cost of Operations	$ 110,414,944
Financing Sources (other than exchange revenues):	
Appropriations Used	4,324,944
Transfers-out	(32,492,865)
Changes in:	
Capital Stock - Redemption of Class A Stock	(25,089,500)
Investment of Others	2,011,524
Net Change in Cumulative Results of Operations	59,169,047
Increase (Decrease) in Unexpended Appropriations	272,137
Change in Net Position	59,441,184
Net Position-Beginning of Period	1,554,671,325
Net Position-End of Period	$ 1,614,112,509

STATEMENT OF FINANCING

(in dollars)

	For the Year Ended September 30, 2000
Resources Used to Finance Operations	
Budgetary	
Budgetary Resources Obligated for Items to Be Received or Provided to Others	$ 220,162,197
Less: Offsetting Collections, Recoveries of Prior-year Authority, and Changes in Unfilled Customer Orders	(304,002,790)
Net Budgetary Resources Used to Finance Operations	(83,840,593)
Total Resources Used to Finance Operations	(83,840,593)
Less: Resources Used to Fund Items Not Part of the Net Cost of Operations	
Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received or Benefits Not Yet Provided	135,319,125
Budgetary Offsetting Collections Not Increasing Exchange Revenue or Decreasing Expense	(92,788,017)
Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations	(15,979,084)
Resources Funding Expenses Recognized in Prior Periods	1,003,065
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	27,555,089
Resources Used to Finance the Net Cost of Operations	(111,395,682)
Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	
Expenses or Exchange Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost over Time	(3,073,262)
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods	4,054,000
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	980,738
NET COST OF OPERATIONS	$ (110,414,944)

The accompanying Notes are an integral part of these statements

Notes to the Financial Statements

Note 1 Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

C. Basis of Accounting

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

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

D. Fund Balance with United States Treasury

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

E. Credit Program Receivable, Net

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

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

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

F. Liabilities

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

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

Accounts Payable

Accounts payable consists solely of subsidy payable, as a result of a downward reestimate, which is payable to the United States Treasury.

Debt - United States Treasury

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

G. Stock Conversion

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

H. Operations

The Rural Electrification Act of 1936, as amended, and RTB's enabling legislation, authorize RTB to partially or jointly use the facilities and services of employees of RUS, or of any other agency of the USDA, without cost. Under the Federal Credit Reform Act, $3 million of appropriated funds provided to RTB to cover administrative costs were transferred to RUS. This amount represents the additional cost to RUS for managing RTB. In this regard, RTB's operations are conducted by RUS administrative and program employees who have similar responsibilities under RUS's rural telephone loan program. The prorated Pension, FECA, and Unfunded leave costs, of $176,050, $125,571, and $7,703 respectively, which are associated with the RTB program, and included in the operating costs of RUS/RD, are not included in the reported cost of the RTB operations.

I. Intra-Governmental Relationships and Transactions

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

Note 2 Fund Balance with Treasury

	September 30, 2000
Assets for use by Entity:	
Revolving Funds	$ 756,359,602
Appropriated Funds	19,812,242
Fund Balance with Treasury	$ 776,171,844

Note 3 Credit Program Receivables, Net

Accounting Policy - Present Value (PV) Disclosure:

Direct loan obligations made prior to FY 1992 are reported on a net realizable value (NRV) basis. Direct loan obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans be recognized as a cost in the year the loan is made. The net present value (NPV) of loans receivable at any point in time is the amount of the gross loan receivable less the present value of the subsidy at that time.

Loans Subject to Credit Reform:

Summary Schedule	September 30, 2000
Loans Receivable, Gross	$ 1,169,837,146
Interest Receivable, Gross	2,597,397
Less: Related Allowance	(15,520,426)
Credit Program Receivables, Net	$ 1,156,914,117

This summary schedule is calculated from the detail amounts shown in the following sections.

Direct Loans Obligated Prior to FY 1992:	September 30, 2000
Loans Receivable, Gross	$ 923,673,900
Interest Receivable, Gross	2,483,485
Less: Allowance for Credit Program Receivables (RV)	(6,396,633)
Credit Program Receivables (NRV)	$ 919,760,752

Direct Loans Obligated After FY 1991:	September 30, 2000
Loans Receivable, Gross	$ 246,163,246
Interest Receivable, Gross	113,912
Less: Allowance for Subsidy Cost (PV)	(9,123,793)
Credit Program Receivables (NPV)	$ 237,153,365

Subsidy Expense for Post-1991 Loans and Credit Receivables:

Current Year's Direct Loans	September 30, 2000
Interest Differential	$ 313,586
Defaults	8,293
Total Current Year's Direct Loan Subsidy Expense	321,879
Fiscal Year Direct Loan Reestimates	(360,000)
Total Direct Loan Subsidy Expense	$ (38,121)

The percentage rate used to segregate the four components of subsidy is based on the rate in effect during FY 2000. Appropriated funds, totaling $3 million, provided to RTB to cover administrative costs were transferred to RUS.

Note 4 Debt

Federal Debt	September 30, 2000
Interest Bearing: Debt to the Treasury	
Beginning Balance	$ 307,831,271
Net Borrowing	(12,629,161)
Ending Balance	$ 295,202,110

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

Note 5 Other Liabilities

Other liabilities include dividends declared and unpaid on Class C stock to non-federal recipients in the amount of approximately $18 million, which are payable on December 15, 2000. This liability is covered by budgetary resources.

Note 6 Commitments and Contingencies

The RTB has in the course of its loan making activities, unliquidated loan obligations that, in the absence of contractual violations or cancellations, will require disbursements. Unliquidated loan obligations at September 30, 2000 total approximately $1,020.7 million.

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

Note 7 Net Position

Unexpended Appropriations	September 30, 2000
Unobligated	$ 5,066,621
Undelivered Orders	14,745,621
Total Unexpended Appropriations	$ 19,812,242

RTB does not have any future financing sources.

Rural Telephone Bank (RTB) Capital Stock

A summary of the RTB capital stock structure follows:	September 30, 2000
CAPITAL STOCK CLASS A ($1 par value)	
Shares authorized	600,000,000
Shares issued and outstanding	476,700,500
Cash dividends	$ 10,035,800
CAPITAL STOCK CLASS B ($1 par value)	
Shares authorized	Unlimited
Shares issued and outstanding	681,518,810
Stock dividends	90,515,784
CAPITAL STOCK CLASS C ($1,000 par value)	
Shares authorized	Unlimited
Par Value, shares issued and outstanding	$ 344,837,000
Cash dividends (paid or accrued)	$ 18,021,249

Although USDA Rural Development owns all Class A stock on behalf of the United States Government, the cash dividends are paid to the U.S. Treasury. On September 30, 2000, in accordance with Section 406 (c) of the Rural Electrification Act of 1936 (RE Act) as amended, the fifth redemption of Class A stock occurred. In accordance with Bank Board resolution 2000-6, $25.1 million was redeemed and retired.

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

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

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

Restricted Capital

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

Patronage Capital Earned

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

- Pay expenses of the RTB, including without limitation, payments in lieu of property taxes.
- Pay interest on telephone debentures accruing during the fiscal year.
- Provide reasonable allowances for depreciation, obsolescence, and losses on loans and interest receivable.
- Pay to the holders of Class A stock an amount equal to 2% per annum of the capital furnished to the RTB for such stock.
- Pay to the holders of Class C stock dividends at the rate determined by the Board, provided the following criteria is met;

    1. No dividends shall be declared on Class C stock until arrearages, if any, on payments to holders of the cumulative Class A stock have been paid.
    2. Until all Class A stock has been retired, the Board shall not declare any dividends on Class C stock at an annual rate in excess of the then current average rate payable on the RTB's telephone debentures.

Unexpended Appropriations

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

As appropriated funds incur obligations, the obligated amount is recorded as an undelivered order. Undelivered orders are reduced by either an expenditure or an obligation cancellation. Appropriated funds, which are not obligated, are treated as unobligated amounts. 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.

Capital Stock Class A

Public Laws 92-12 and 97-98 authorized Congress, in fiscal years 1971 through 1991, to appropriate no more than $30 million per year for the purchase of RTB Class A stock. Class A stock has a guaranteed annual dividend of 2 percent of the total funds received. The law provides that Congress annually appropriate funds until such purchases approximate $600 million.

As of September 30, 2000, RTB Class A stock appropriations amounted to approximately $592.1 million, the total funding USDA Rural Development will receive from Congress. Beginning in 1996, RTB was required to repurchase this stock; however, in accordance with Public Law 106-78, Section 718, the maximum Class A stock that may be retired is 5 percent. According to enabling legislation and amendments, the Bank will be converted to independent status when 51 percent of the Class A stock issued to the United States has been fully redeemed and retired. On September 30, 2000, in accordance with Bank Board resolution 2000-6, the fifth redemption ($25.1 million) of Class A stock occurred, leaving a balance of $476.7 million outstanding.

Cumulative Results of Operations

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

Note 8 Earned Revenues (Budget Function Code 452)

	September 30, 2000
Federal:	
Interest Revenue from Treasury	$ 57,866,623
Total Federal	57,866,623
Non-Federal:	
Interest and Penalties Revenue	81,405,151
Total Non-Federal	81,405,151
Total Earned Revenues	$ 139,271,774

Credit Reform

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

Exchange Transactions With Non-Federal Sources

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

Exchange Transactions with Federal Sources

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

Note 9 Disclosures Related to the Statement of Budgetary Resources

(a) The net amount of budgetary resources obligated for undelivered orders as of September 30, 2000, is approximately $1,020.7 million.

(b) The amount of borrowing authority available as of September 30, 2000, is approximately $904.0 million.

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

Terms of borrowings used: In general, borrowings are for periods of up to fifty years depending upon the cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect at the end of the year of loan disbursements. Since individual loans are typically disbursed over several years, several interest rates may be applicable to an individual loan. A single weighted average interest rate, which is adjusted each year until all the disbursements for the cohort have been made, is maintained.

Prepayments can be made on Treasury borrowings in the liquidating and financing accounts without penalty.

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

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

Actual Recoveries of Prior Year Obligations	$ 78,198,724
Redemption of Debt	(51,673,540)
Other Authority Withdrawn	(56,534,711)
Total Adjustments	$ (30,009,527)

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

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

Other authority withdrawn represents the withdrawal of unobligated balances of indefinite budget authority realized in no-year or multiple year accounts through downward adjustments of prior year obligations.

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

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

Annual and multi-year authority 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 "canceled". Therefore, the authority is not available for any purpose.

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

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

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

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

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

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

Contributed capital received during the reporting period approximated $13 thousand.

Stockholder Meeting

The Stockholder Meeting will be held on August 17, 2001, at 9:00 a.m., at the U.S. Department of Agriculture, Washington, D.C.

Stockholder Questions

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More Information

For more information about the Bank, visit our Internet site:

www.usda.gov/rus/telecom/rtb/rtb.htm