



Annual Report 1999

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Rural Telephone Bank

Stockholder Letter

Dear Stockholder:

The operating environment of the telecommunications industry is rapidly changing. Today's "basic level" of service is tomorrow's inadequate level of service if our students are to remain competitive, our citizens healthy, and our economy strong. The Telecommunications Act of 1996 made clear, by mandate, that universally available and affordable telecommunications service be provided to all US citizens--whether in rural areas or city centers, affluent or poor communities. As we move forward in this dynamic, competitive environment, the Rural Telephone Bank (Bank) and the Rural Utilities Service Telecommunications Program (Telecommunications Program) will continue to introduce new concepts and effective policies and serve as a voice for rural America in advocating quality, affordable, advanced telecommunications services.

During fiscal year 1999, we made tremendous progress in streamlining our operations and implementing new initiatives. Eliminating unnecessary procedures and increasing program delivery through outreach and customer service initiatives have reduced loan processing times and expedited the delivery of funding. Several of our accomplishments designed to further streamline policies and procedures and to facilitate the flow of investment to rural America are highlighted below:

Modified Policy for Stock Conversion

The Board of Directors adopted a new policy to allow borrowers to convert Class B patronage capital to Class C stock before the repayment, in full, of all outstanding indebtedness to the Bank. The amount eligible for conversion is based on the percent of loan principal repaid on your Bank loan.

Automatic Lien Accommodations for Healthy Borrowers

We issued a proposed rule to amend regulations to provide for automatic lien accommodations for financially sound borrowers wishing to foster investment in rural telecommunications infrastructure. The more financially healthy the borrower, the less our approval is needed.

Acquisition Financing

Financing is available for the acquisition of properties when the acquisition is necessary and incidental to furnishing or improving service in rural areas. Borrowers are permitted to use internally generated funds or funds provided by another lender to "reduce" the amount of the necessary and incidental test.

Title Clearance Waiver

We eliminated the undue and costly burden of performing title searches on multiple, small remote switching sites. We waived the requirement for title clearance for any site in which the total investment value is equal to or less than \$250,000 per site; including land, building, and installed equipment costs.

Financial Reporting Requirements

With the deregulation of the telecommunications industry and the transition to a competitive marketplace, our borrowers raised concerns about the competitive harm that may result from the collection and release of information reported in the RUS Form 479, Financial and Statistical Report. In response to these concerns, we revised the information collection policy, collecting only that information necessary to protect loan security and monitor rural infrastructure.

Limited Liability Company Eligibility

The limited liability company structure is an increasingly used form of business organization that is often associated with significant income tax savings. We published a direct final rule specifying that LLCs are eligible for our financing if the state laws under which the LLC is organized enable the LLC to accomplish the purposes of the Rural Electrification Act of 1936, as amended.

Central Office Equipment Procurement

We are providing increased flexibility in the procurement of COE by negotiation. While our approval is required, we have developed procedures where borrowers may obtain, in most instances, this approval the same day of their request.

In fiscal year 1999, the Bank approved a total of \$113.9 million in loans. Bank financing represented nearly 25 percent of the total loans approved by the Telecommunications Program. Bank loans approved in fiscal year 1999 will provide new service to approximately 42,500 residents and businesses and improved service to nearly 165,750 residents and businesses. On average, borrowers of the Telecommunications Program, including Bank borrowers, invest in telecommunications plant at a rate of nearly \$5 to every \$1 of Federal investment.

While significant progress is being made in the deployment of advanced telecommunications technologies in rural areas, we will continue to focus on the challenges that remain in providing rural access to the digital economy and its benefits. From enhanced educational opportunities over distance learning networks, to life saving procedures through telemedicine, to rural economic development projects involving local businesses and agribusinesses -- the Bank and the Telecommunications Program are "wiring" rural America for the 21st century.

Sincerely,

Christopher A. McLean
Acting Governor
Rural Telephone Bank

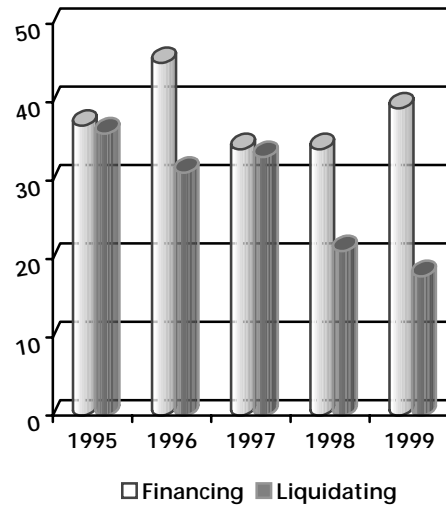
Rural Telephone Bank

Fiscal Year 1999 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 prior to fiscal year 1992 (liquidating account loans) differently from loans made during and after fiscal year 1992 (financing account loans). The Bank advanced \$56.5 million in funds to borrowers in fiscal year 1999; \$17.8 million in liquidating account loans and \$38.7 million in financing account loans. Over the last five years, Bank advances have averaged \$65.5 million annually.

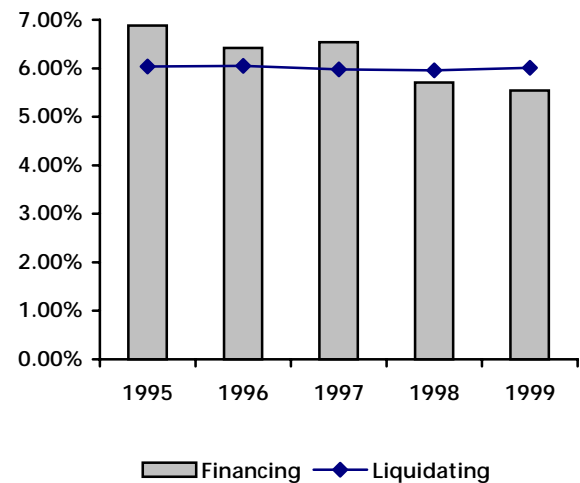
Advances of Loan Funds
(millions of dollars)



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 1999 was 6.01 percent (liquidating), the rate for loans approved during fiscal years 1992 through 1999 and advanced in fiscal year 1999, was 5.54 percent (financing).

Interest Rates Charged on Loans



Interest Income and Patronage Capital Assignable

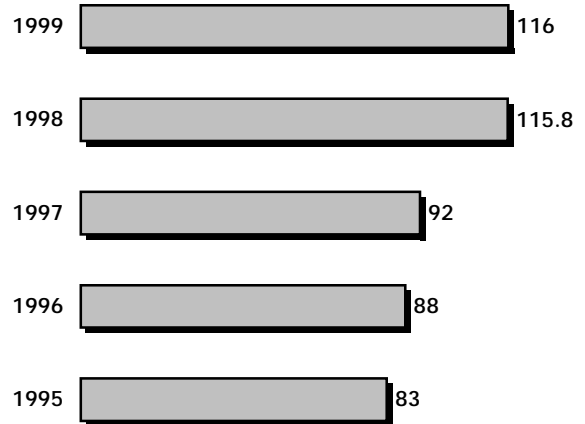
Restricted capital and patronage capital at the end of fiscal year 1999 totaled \$100.5 million. During fiscal year 1999, interest and other income was \$143 million. Income from appropriations was \$1.4 million. Expenses amounted to \$28 million, leaving an excess of revenues and other financing sources over total expenses of \$116 million. A return of \$11 million paid to the U.S. Treasury and a cash dividend of \$14 million paid to Class C stockholders resulted in patronage capital assignable of \$90.5 million.

Dividends and Patronage Refunds

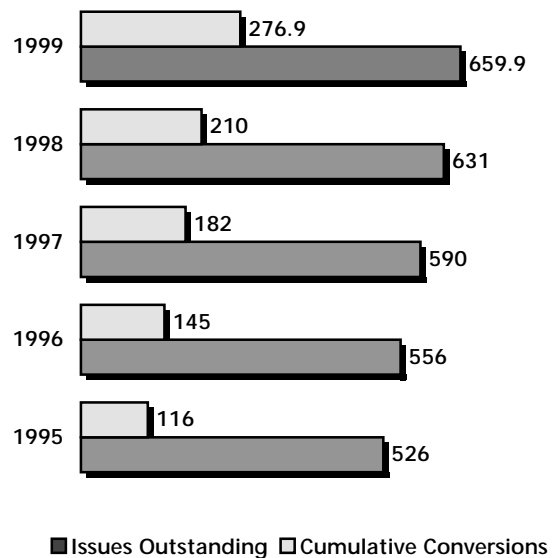
Ownership of the Bank, in addition to the U.S. Government, is shared by borrowers, former borrowers, and other related organizations authorized to invest. The Bank operates on a cooperative basis and earnings, in excess of the annual return of two percent required on the Government's investment in Class A stock, are returned to the non-Government owners as patronage refunds.

The Bank Board of Directors declared a cash dividend of 5.50 percent on Class C stock at its August 6, 1999 meeting. This represented the 27th consecutive annual dividend by the Bank. Until all Class A stock is retired, the dividend rate on Class C stock can not be greater than the average interest rate payable on the Bank's outstanding debt --- that rate for fiscal year 1999 was 6.90 percent. A patronage refund was also declared for fiscal year 1999.

Excess of Revenue and Other Financing Sources Over Total Expenses
(millions of dollars)



Cumulative Class B Stock Outstanding and Cumulative Conversions to Class C Stock
(millions of dollars)



Rural Telephone Bank

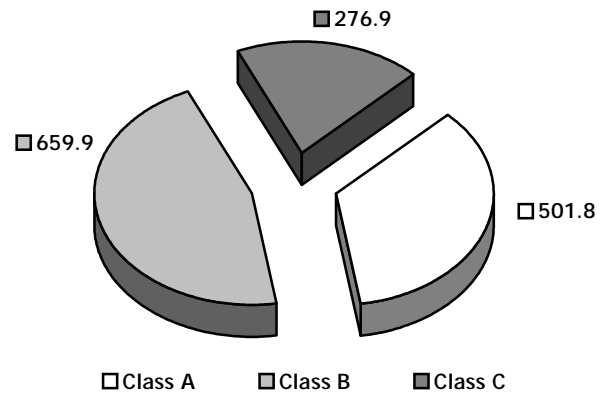
Fiscal Year 1999 Highlights

Stock Sales

Bank borrowers purchased \$2.4 million in Class B stock, bringing the cumulative total purchased to \$130.9 million. Total Class B stock outstanding, including patronage refunds and net of amounts converted to Class C stock, increased by \$28.5 million during fiscal year 1999, to \$659.9 million. Cumulative Class C stock rose to \$276.9 million, an increase of \$66.4 million during fiscal year 1999.

Stockholder Equity Shares Outstanding

(millions of dollars)

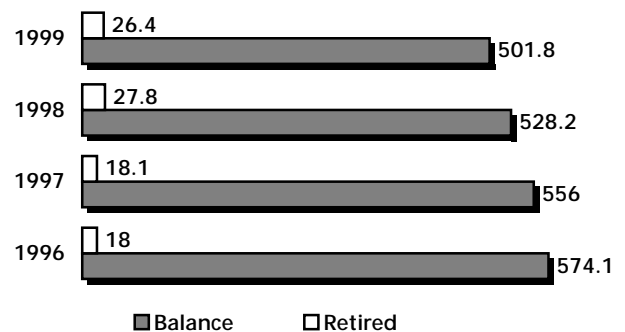


Stock Redemption

No additional Class A stock was purchased by the Government during fiscal year 1999. The cumulative total of Class A stock purchases to date is \$592.1 million. In accordance with Board Resolution 99-5, \$26.4 million in Class A stock was redeemed on September 30, 1999; leaving a net outstanding of \$501.8 million. This was the fourth consecutive annual redemption of Class A stock.

Retirement of Class A Stock

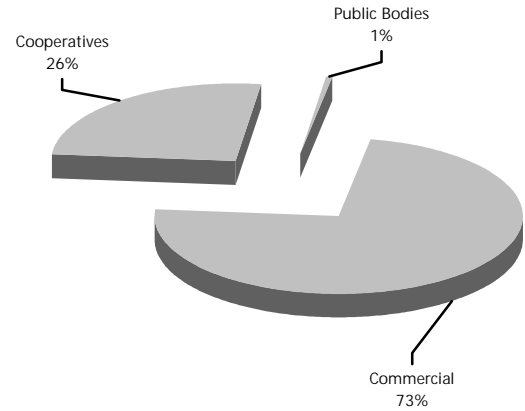
(millions of dollars)



Cumulative Loans

New Bank loans during fiscal year 1999 totalled \$113.9 million. Bank loans since inception, net of rescissions as of September 30, 1999, totalled \$2.7 billion to commercial company borrowers, \$946 million to cooperative borrowers, and \$21.2 million to public body borrowers.

Distribution of Cumulative Loans



Repaid Principal and Interest

During fiscal year 1999, borrowers had paid \$211.2 million in principal and \$91 million in interest. The interest figure includes \$4.8 million in prepayment premiums. As of calendar year ending 1999, payments made to the Bank amounted to \$1,533.2 million in principal and \$2,241.1 million in interest.

Cumulative Total Payments of Principal and Interest
Calendar Year Ending 1999

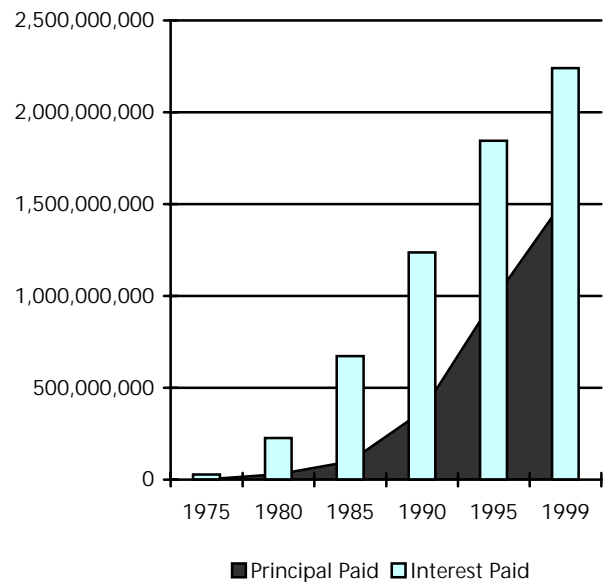


Chart includes notes paid in full.
Interest paid includes prepayment premiums.

A V I S I O N
for the
Future

Our Board of Directors is committed to directing industry change to your advantage by planning ahead for a challenging future.



First row (from left): Chairperson Jill Long Thompson, Assistant Treasurer Ken Ackerman, Assistant Governor Roberta Purcell, Deputy Assistant Governor Jonathan Claffey; second row: Michael V. Dunn, Vice Chair Jimmie Lou Fisher, Larry Sevier, Robert Lee Stanton, John Dillard, Acting Governor Christopher McLean; third row: David Crothers, Treasurer John McAllister, and Secretary Curtis Sampson. Not pictured: Dr. I. Miley Gonzalez, Sharron Harris, Michael Jensen, and Carl Whillock.

Board of Directors at September 30, 1999

Representing the U.S. Department of Agriculture

Jill Long Thompson, *Chairwoman*

Sworn in on November 3, 1995. She was appointed by President Clinton and is the Under Secretary for Rural Development, USDA.

Michael V. Dunn

Sworn in on May 9, 1995. He was appointed by President Clinton and is the Under Secretary for Marketing and Regulatory Programs, USDA.

Dr. I. Miley Gonzalez

Sworn in on February 19, 1998. He was appointed by President Clinton and is the Under Secretary for Research, Education, and Economics, USDA.

Sharron Harris

Sworn in on November 4, 1993. She was appointed by President Clinton and is the Director of the Office of Small Disadvantaged Business Utilization, USDA.

Carl S. Whillock

Sworn in on February 19, 1998. He was appointed by President Clinton and is the Special Assistant to the President for Agriculture and Trade.

Representing the Public

Jimmie Lou Fisher, *Vice Chair*

Sworn in on May 9, 1995. She was appointed by President Clinton and is the State Treasurer for the state of Arkansas.

Robert Lee Stanton

Sworn in on May 9, 1995. He was appointed by President Clinton and is a farmer and businessman from Missouri.

Representing Cooperative-Type Stockholders

David Crothers

Sworn in on November 19, 1998. Elected by stockholders, he is the Executive Vice President and General Manager of the North Dakota Association of Telephone Cooperatives.

John McAllister, *Treasurer*

Sworn in on September 19, 1974. Elected by stockholders, he is the President of West Carolina Rural Telephone Cooperative, Inc.

Larry E. Sevier

Sworn in on November 16, 1994. Elected by stockholders, he is the Chief Executive Officer of Rural Telephone Service Company, Inc.

Representing Commercial-Type Stockholders

John T. Dillard

Sworn in on November 19, 1998. Elected by stockholders, he is the President and General Manager of Monroe Telephone Company.

S. Michael Jensen

Sworn in on February 25, 1992. Elected by stockholders, he is the Chief Executive Officer of Great Plains Communications, Inc.

Curtis S. Sampson, *Secretary*

Sworn in on September 29, 1988. Elected by stockholders, he is the Chairman and Chief Executive Officer of Hector Communications, Inc.

Board of Director's Privatization Committee

Curtis S. Sampson, Committee Chairperson, David Crothers, John T. Dillard, S. Michael Jensen, John McAllister, and Larry E. Sevier

Governor of the Telephone Bank

Christopher A. McLean, Acting Governor, was nominated by President Clinton in February, 2000 to serve as Administrator of RUS and Governor of the Telephone Bank. Upon Senate confirmation, he would succeed Mr. Wally Beyer who retired in November, 1999.

As provided by law, the Administrator of the Rural Utilities Service (RUS) serves as the Governor of the Bank. In this capacity, the Governor may exercise and perform all of the Bank's functions, powers, and duties, except for matters specifically reserved for the Board of Directors. Overall policy decisions and management vest in a 13-member board composed of 7 members appointed by the President and 6 members elected by the Bank's stockholders. The Bank's operations are conducted by the employees of RUS that have similar duties and responsibilities under RUS's rural telecommunications program. In addition, RUS and the U.S. Department of Agriculture's Office of General Counsel provide facilities and administrative support to the Bank without reimbursement.



RTB

Rural Telephone Bank
1400 Independence Avenue, SW
Mail Stop 1510, Room 4051, South Building
Washington, DC 20250-1510
(202) 720-9540
www.usda.gov/rus/rtb/rtb.htm

Rural Telephone Bank

Financial Statements

STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION *at September 30, 1999 (Dollars in thousands)*

ASSETS

Assets for Use by Entity:

Federal	
Fund Balance with Treasury (Note 2)	\$ 676,607
Non-Federal	
Credit Program Receivables, Net (Note 3)	<u>1,200,525</u>
Total Assets	\$ <u>1,877,132</u>

LIABILITIES

Liabilities Covered by Budgetary Resources:

Federal	
Accounts Payable	\$ 625
Debt (Note 4)	307,831
Non-Federal	
Other Liabilities (Note 5)	<u>14,005</u>
Total Liabilities	<u>322,461</u>

COMMITMENTS AND CONTINGENCIES (Note 6)

NET POSITION (Note 7)

Unexpended Appropriations	<u>19,540</u>
Federal	
Equity of the U.S. Government	
Capital Stock Class A	501,790
Subsidy Re-estimates	<u>(1,003)</u>
Total Equity of the U.S. Government	<u>500,787</u>
Non-Federal	
Investment of Others	
Capital Stock Class B	656,930
Capital Stock Class C	276,898
Restricted Capital	10,000
Patronage Capital Earned	<u>90,516</u>
Total Investment of Others	<u>1,034,344</u>
Total Net Position	<u>1,554,671</u>
Total Liabilities and Net Position	\$ <u>1,877,132</u>

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST at September 30, 1999*(Dollars in thousands)*

Costs:		
Program Costs		
Federal	\$	31,527
Non-Federal		
Loans - Subsidy Expense		8,375
Other Program Costs		<u>(1,546)</u>
Total Program Production Costs		38,356
Less Earned Revenues (Note 8)		<u>144,381</u>
Net Cost of Operations	\$	(106,025)

STATEMENT OF CHANGES IN NET POSITION at September 30, 1999*(Dollars in thousands)*

Net Cost of Operations	\$	106,025
Financing Sources (other than exchange revenues):		
Appropriations Used		3,893
Transfers-out		(20,086)
Changes in:		
Capital Stock - Redemption of Class A Stock		(26,410)
Investment of Others		<u>2,368</u>
Net Change in Cumulative Results of Operations		65,790
Increase (Decrease) in Unexpended Appropriations		<u>3,642</u>
Change in Net Position		69,432
Net Position-Beginning of Period		<u>1,485,239</u>
Net Position-End of Period	\$	<u>1,554,671</u>

The accompanying notes are an integral part of these statements.

The financial statements should be read with the following limitations in mind: (1) The financial statements have been prepared to report the financial position and results of operations of the Bank, pursuant to the requirements of 31 U.S.C. 3315(b); (2) 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; and (3) 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.

Rural Telephone Bank

Financial Statements (Continued)

STATEMENT OF BUDGETARY RESOURCES at September 30, 1999

(Dollars in thousands)

Budgetary Resources: (Note 9)	
Budget Authority	\$ 93,208
Unobligated balances - beginning of period	401,276
Spending Authority from offsetting collections	348,089
Adjustments	<u>(165,710)</u>
Total budgetary resources	<u>676,863</u>
Status of Budgetary Resources:	
Obligations incurred	162,174
Unobligated balances-available	1,516
Unobligated balances-not available	<u>513,173</u>
Total, status of budgetary resources	<u>676,863</u>
Outlays:	
Obligations incurred	162,174
Less: actual spending authority from offsetting collections and actual adjustments	(386,763)
Obligated balance, net - beginning of period	961,143
Obligated balance transferred, net	0
Less: obligated balance, net - end of period	<u>(979,738)</u>
Total outlays	\$ <u>(243,184)</u>

The accompanying notes are an integral part of these statements.

STATEMENT OF FINANCING at September 30, 1999*(Dollars in thousands)*

Resources Used to Finance Operations

Budgetary	
Budgetary Resources Obligated for Items to be Received or Provided to Others	\$ 162,174
Less: Offsetting Collections, Recoveries of Prior-year Authority, and Changes in Unfilled Customer Orders	<u>(386,763)</u>
Net Budgetary Resources Used to Finance Operations	<u>(224,589)</u>
Total Resources Used to Finance Operations	<u>(224,589)</u>

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	45,359
Budgetary Offsetting Collections Not Increasing Exchange Revenue or Decreasing Expense	<u>(216,886)</u>
Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations	58,194
Resources Funding Expenses Recognized in Prior Periods	<u>320</u>
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>(113,013)</u>

Resources Used to Finance the Net Cost of Operations (111,576)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	4,548
Expenses Which Will be Financed with Budgetary Resources Recognized in Future Periods	<u>1,003</u>
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	<u>5,551</u>

NET COST OF OPERATIONS \$ (106,025)*The accompanying notes are an integral part of these statements.*

Rural Telephone Bank

Notes to the Financial Statements

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, net costs, and changes in net position of RTB, together with budgetary resources and a reconciliation of net costs to budgetary obligations, 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 105-277).

E. Credit Program Receivables, Net

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

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

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

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 interest payable on notes held by 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 was 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 \$74,602, (\$36,972), and (\$36,398) 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.

J. Comparative Data

OMB Bulletin 97-01, "Form and Content of Agency Financial Statements" provides that comparative financial statements are permitted but not required until reporting periods beginning after September 30, 1999. RTB management has elected not to present comparative data in the financial statements for the fiscal year ending September 30, 1999.

NOTE 2 FUND BALANCE WITH TREASURY

Amounts are presented in thousands of dollars.

	<u>September 30, 1999</u>
Assets for use by Entity:	
Revolving Funds	\$ 657,067
Appropriated Funds	<u>19,540</u>
Fund Balance with Treasury	\$ <u>676,607</u>

NOTE 3 CREDIT PROGRAM RECEIVABLES, NET

Amounts are presented in thousands of dollars.

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.

Rural Telephone Bank

Notes to the Financial Statements (Continued)

Loans Subject to Credit Reform:

September 30, 1999

Summary Schedule

Loans Receivable, Gross	\$1,213,516
Interest Receivable, Gross	2,680
Less: Related Allowance	<u>(15,671)</u>
Credit Program Receivables, Net	<u>\$1,200,525</u>

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

September 30, 1999

Direct Loans Obligated Prior to FY 1992:

Loans Receivable, Gross	\$ 986,067
Interest Receivable, Gross	2,642
Less: Allowance for Credit Program Receivables (RV)	<u>(6,556)</u>
Credit Program Receivables (NRV)	<u>\$ 982,153</u>

September 30, 1999

Direct Loans Obligated After FY 1991:

Loans Receivable, Gross	\$ 227,449
Interest Receivable, Gross	38
Less: Allowance for Subsidy Cost (PV)	<u>(9,115)</u>
Credit Program Receivables (NPV)	<u>\$ 218,372</u>

Subsidy Expense for Post-1991 Loans and Credit Receivables:

September 30, 1999

Current Year's Direct Loans

Interest Differential	\$ 523
Defaults	<u>8</u>
Total Current Year's	
Direct Loans Subsidy Expense	531
Fiscal Year Direct Loan Reestimates	<u>7,844</u>
Total Direct Loan Subsidy Expenses	<u>\$ 8,375</u>

The percentage rate used to segregate the four components of subsidy is based on the rate in effect during FY 1999. Appropriated funds, totaling \$3 million, provided to RTB to cover administrative costs were transferred to RUS.

NOTE 4 DEBT

Amounts are presented in thousands of dollars.

September 30, 1999

Federal Debt

Interest Bearing:	
Debt to the Treasury	
Beginning Balance	\$ 432,229
Net Borrowing	<u>(124,398)</u>
Ending Balance	<u>\$ 307,831</u>

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, 1999, RTB's maximum borrowing authority approximated \$31 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, approximated \$14 million, and are payable on December 15, 1999.

This liability is covered by budgetary resources.

NOTE 6 COMMITMENTS AND CONTINGENCIES

The Rural Telephone Bank has in the course of its loan making activities, unliquidated loan obligations which, in the absence of contractual violations or cancellations, will require disbursements. Unliquidated loan obligations at September 30, 1999, total approximately \$965.9 million.

As of September 30, 1999, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

NOTE 7 NET POSITION

Amounts are presented in thousands of dollars.

September 30, 1999

Unexpended Appropriations

Unobligated-Available	\$ 7,086
Undelivered Orders	<u>12,454</u>
Total Unexpended Appropriations	<u>\$ 19,540</u>

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, 1999

CAPITAL STOCK CLASS A (\$1 par value)	
Shares authorized	600,000
Shares issued and outstanding	501,790
Cash dividends	\$ 10,564
CAPITAL STOCK CLASS B (\$1 par value)	
Shares authorized	Unlimited
Shares issued and outstanding	656,930
Stock dividends	89,595
CAPITAL STOCK CLASS C (\$1,000 par value)	
Shares authorized	Unlimited
Par Value, shares issued and outstanding	\$ 276,898
Cash dividends (paid or accrued)	\$ 13,969

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, 1999, in accordance with Section 406 (c) of the Rural Electrification Act of 1936 (RE Act) as amended, the fourth redemption of Class A stock occurred. In accordance with Bank Board resolution 99-5, \$26.4 million was redeemed.

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 \$45 million at September 30, 1999, 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. 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, 1999, restricted capital was approximately \$10 million.

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:

1. Pay expenses of the RTB, including without limitation, payments in lieu of property taxes.
2. Pay interest on telephone debentures accruing during the fiscal year.
3. Provide reasonable allowances for depreciation, obsolescence, and losses on loans and interest receivable.
4. 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.
5. Pay to the holders of Class C stock dividends at the rate determined by the Board, provided the following criteria is met:
 - (a) 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.
 - (b) 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

Rural Telephone Bank

Notes to the Financial Statements (Continued)

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, 1999, 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 105-86, 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, 1999, in accordance with Bank Board resolution 99-5, the fourth redemption (\$26.4 million) of Class A stock occurred, leaving a balance of \$501.8 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)

Amounts are presented in thousands of dollars.

	<u>September 30, 1999</u>
<u>Federal:</u>	
Interest Revenue-Subsidy	\$ 1,379
Interest Revenue from Treasury	<u>51,979</u>
Total Federal	<u>53,358</u>
<u>Non-Federal:</u>	
Interest and Penalties Revenue	<u>91,023</u>
Total Non-Federal	<u>91,023</u>
Total Earned Revenues	\$ <u>144,381</u>

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 also 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 because 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

Amounts are presented in thousands (\$000) of dollars.

- A. The net amount of budgetary resources obligated for undelivered orders as of September 30, 1999, is approximately \$965,900.
- B. The amount of borrowing authority available as of September 30, 1999, is approximately \$817,800.
- 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 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 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 disbursement. Since individual loans are typically disbursed over several years, several interest rates may be applicable to an individual loan. A single weighted average interest rate which is adjusted each year, until all the disbursements for the cohort have been made, is maintained.

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

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

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

Actual Recoveries of Prior Year Obligations	\$ 38,674
Redemption of Debt	(172,384)
Other Authority Withdrawn	<u>(32,000)</u>
Total Adjustments	\$ <u>(165,710)</u>

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.

Redemption of debt represents the amount of principal repayments paid to the 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 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.

- (a) **Purpose** - Funds may be obligated and expended only for the purposes authorized in appropriations acts or other laws.
- (b) **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).
- (c) **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.

Contributed capital received during the report period approximated \$18 thousand.