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

RTB Annual Report

30th Anniversary

1971 to 2001

August 2002

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 2001. 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,

Hilda Gay Legg
Governor

2001 Annual Report

Contents

Management

Hilda Gay Legg……………………………………………………………………… Governor

Roberta D. Purcell………………………………………………………...Assistant Governor

Jonathan P. Claffey…………….……Deputy Assistant Governor & Assistant Secretary

Kenneth Ackerman…………………………………………………………..…Assistant Treasurer

Cheryl L. Gamboney………………………………………………………......Financial Analyst

Independent Auditors

Gardiner, Kamya & Associates, P.C., Washington, D.C.

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.

Message from the Governor

Dear Shareholders:

Secretary Ann M. Veneman and all United States Department of Agriculture employees across the country extend their heartfelt condolences to all those impacted by the tragedies of September 11. We honor the brave men and women who have put their lives on the line to protect and defend this great Nation.

As we come to terms with the odious events that occurred in our Nation, it is good to remember that the United States has triumphed over difficult times before and we will do so again. In 2002, it is important for us to look forward and to make this coming year a year of healing and promise for a strong and safe nation.

The Rural Utilities Service (RUS) and Rural Telephone Bank (Bank) are committed to strengthening rural America's telecommunications systems by continuing to rapidly respond to your financing needs.

As we celebrate the 30th anniversary of the Bank, we can inform you that 2001 has been a very successful year. During 2001, loans approved totaled $174.6 million bringing the total loans approved since inception to $3,930,964,380. Loans to commercial companies topped $2.8 billion, loans to cooperative borrowers increased to $1.2 billion, and loans to public bodies rose to $23.3 million.

Also in 2001, the Board declared a cash dividend of 5.45 percent on Class C stock. This represented the 29th 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 6.43 percent at the time the dividend was declared. A patronage refund was also declared for fiscal year 2001.

The Bank continues to play a vital role in ensuring reasonable interest rates on loans to telecommunications carriers in rural areas --- allowing them the means to connect our world and invest in our future! The dedicated borrowers of the RUS and Bank telecommunications program have been hard at work for many decades, providing solutions to problems associated with serving rural America. Progress is being made and there are successes being achieved everyday. Rural carriers are providing more access and a higher deployment rate of access everyday. The deployment of advanced service by rural carriers is truly impressive.

I wish to thank those who contributed information and photographs for our annual report. The stories and memories provided to us by our borrowers are irreplaceable. I truly admire the Bank and RUS borrowers for their dedication and accomplishments.

As always, we appreciate your support and commitment to rural America. We look forward to communicating with you in the future.

Cordially,

Hilda Gay Legg
Governor

Honoring the Past – 30 Years of Partnership

Deputy Governor E.C. Weitzell selects out of hat the names of the first companies receiving Rural Telephone Bank loans, as Governor David Hamil looks on.

This year is the 30th anniversary of the Rural Telephone Bank. Over the years, many Bank borrowers have grown and prospered. To show some of the accomplishments our borrowers have achieved, a retrospective of three of the first companies to receive loans from the Bank is presented on the following pages.

Plant Telecommunications

From 1895 to 2002!

In 1971, Plant Telecommunications, formerly Plant Telephone and Power Company, Inc., had 33 employees and approximately 4,000 customers. Today, Plant Telecommunications has 75 employees and more than 10,600 line-based customers. Since 1971, Plant Telecommunications has increased profit by a factor of 20 while maintaining strong values and the highest customer service.

Financial assistance provided by the Rural Telephone Bank has helped Plant Telecommunications to grow to be one of the largest family-owned telephone companies in the state of Georgia, with a service area covering 875 square miles and spanning over 13 counties. The company has expanded to offer a full line of telecommunications services: local and long distance, telephone business systems and service, pagers, voicemail, voicemail menu service, Internet, DSL, Web hosting and design, and broadband satellite Internet service. Plant's Internet access spans 35 counties in South Georgia.

Plant Telecommunications has been recognized for its hard work and dedication by receiving several awards. In 2001, the company was named the Georgia Family Business of the Year by the Cox Family Enterprise Center. In April of this year, they received the 2002 Cox Century Award. "In a time when trust in both family and business is more important than ever, these businesses embody the best Georgia has to offer," said Cox Family Enterprise Center Director Joe Astrachan.

Washington, D.C., January 1972…… David A. Hamil, Governor of the Rural Telephone Bank, approves a loan of $557,500 to the Plant Telephone & Power Company, Inc., Tifton, Georgia.

Even though the company has expanded and changed through the generations, the family commitment to the business has remained constant. Governor Zell Miller recognized Plant's dedication to excellence in 1996 when he proclaimed September 20 as Plant Telecommunications Day in Georgia.

Eastex Telephone Cooperative

From 1950 to 2002!

Eastex Telephone Cooperative Headquarters, 2002

When first established back in 1950, Eastex Telephone Cooperative provided basic telephone service to one rural county. Today, Eastex provides wireline and wireless telephone service, voicemail, and Internet service, DSL and satellite to eleven counties in rural Texas. In the late 1940's, the residents of rural Rusk County, Texas, and adjoining counties were unable to obtain telephone service from any existing telephone company. Several companies had been contacted and they all gave the same story, "It's just not feasible."

In November 1949, Congress passed an Amendment to the Rural Electrification Act providing that loans could be made to existing telephone companies and newly established telephone cooperatives. In January 1950, work was started toward establishing a cooperative in Rusk County. After several months of hard work, a loan was approved by the Rural Electrification Administration (REA, predecessor to the RUS), and on June 2, 1950, an organizational meeting was held. Later that month, a Charter was granted to the Eastex Telephone Cooperative--this charter was one of the first granted. There were only fourteen people present at the organizational meeting and seven of them were selected to serve on the Board of Directors.

Beginning with six employees, Eastex has grown to employ 137 people full-time. In 1972, Eastex's profit was $300,000; however, with financing assistance from the Rural Telephone Bank, Eastex has grown to a present day net margin of more than $7.5 million.

Today, Eastex Telephone has grown to 21 exchanges with all digital switching equipment, 200 miles of fiber optic and 4,000 route miles of buried cable. Eastex provides only one-party telephone service to over 30,000 subscribers in eleven counties.

The directors and employees are proud of what has been accomplished. As one of the largest telephone cooperatives in the state of Texas, Eastex has a truly enviable growth record for a cooperative which began with only 204 subscribers.

Eastex employees testing lines from the central office mainframe.

Photos courtesy of Eastex Telephone Cooperative.

Pioneer Communications

From 1950 to 2002!

"It shall be the aim of The Pioneer Telephone Association, Inc. to provide dependable area-wide telephone service on the cooperative plan and at the lowest cost consistent with sound economy and good management."

--From the January 16, 1951, minutes of the Board of Directors meeting of the Pioneer Telephone Association

Pioneer Communications Headquarters, 2002

On October 27, 1950, a group of representatives from five counties in Kansas met in Ulysses at the offices of the local electric cooperative. The meeting was the culmination of numerous conferences and get-togethers of citizens interested both in improving existing telephone service and in bringing service to rural areas. The group decided to take the necessary steps to determine if interest existed in the formation of a telephone cooperative.

In January of 1951, an option to purchase the telephone properties of the Border Telephone Company located in Hamilton and Stanton counties was executed. An option was also made to buy the F & M Telephone Company which served the counties of Ulysses and Grant. All purchases were contingent upon procuring an REA loan and obtaining Kansas Corporation Commission approval. In June of 1951, REA approved a loan in the amount of $1,089,000.

Pioneer Communications has operated from its current headquarters since 1956 and in existence since 1950, providing Southwest Kansans with the highest quality service at the lowest possible costs for more than four decades. Today's rapid growth and development in the telecommunications industry and related technologies has prompted new growth and development at Pioneer Communications.

Pioneer Communications began with 23 full-time employees where currently they employ 123 people. Pioneer has profited tremendously throughout the years with an average increase of 39% yearly. Their services include; wireline and wireless telephone service, long distance service, paging, Internet including dial-up and broadband, and cable service. With more than 15,000 customers Pioneer Communications is ensuring affordable and quality telecommunication services to rural residents.

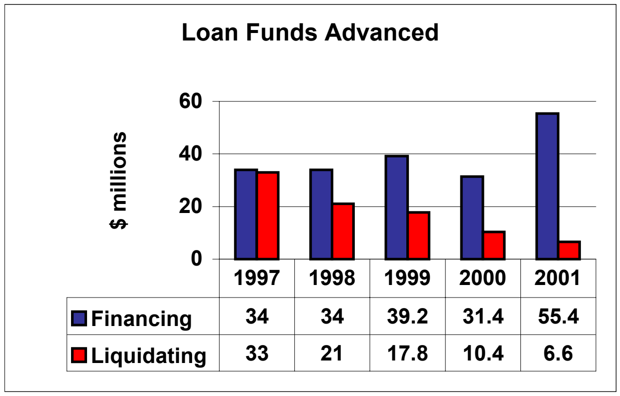
In January of 1990, Pioneer activated a two-way interactive instructional video network that tied together schools in nine cities. It was the first system of its type to be installed in Kansas and the first fully digital two-way interactive switched system in service in the United States. Pioneer Communication's commitment to excellence in the telephone industry, and their belief on focusing on the future will ensure them to have a strong future connecting rural Kansas.

A special thank you to RUS student interns Rachel Wyatt and Mauricio Agudelo who provided invaluable assistance. Their extensive editorial support, data collection, and research contributed enormously to the anniversary report.

Fiscal Year 2001 Highlights

Loan Funds Advanced

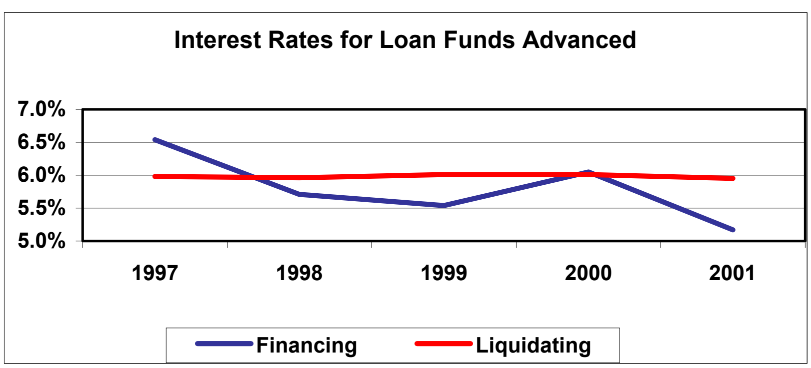
The Federal Credit Reform Act of 1990 restructured the methodology by which the Bank obtains and advances loan funds. Specifically, Credit Reform "divided" the Bank's loan program by accounting for loans made before fiscal year 1992 (liquidating account loans) differently from loans made during and after fiscal year 1992 (financing account loans). The Bank advanced $62.0 million in funds to borrowers in fiscal year 2001; $6.6 million in liquidating account loans and $55.4 million in financing account loans. Over the last five years, Bank advances have averaged $56.7 million annually.



	1997	1998	1999	2000	2001
Financing	34	34	39.2	31.4	55.4
Liquidating	33	21	17.8	10.4	6.6

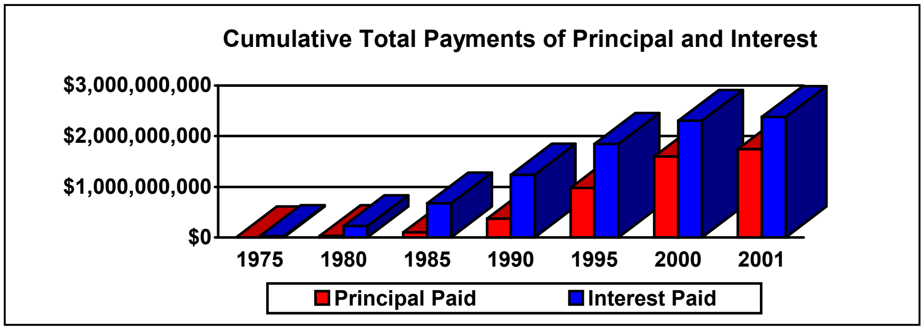
Interest Rates for Loan Funds Advanced

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 2001 was 5.95 percent (liquidating), the rate for loans approved during fiscal years 1992 through 2001 and advanced in fiscal year 2001, was 5.17 percent (financing).



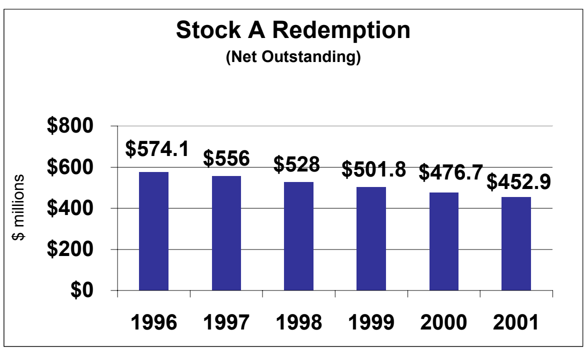
Repaid Principal and Interest

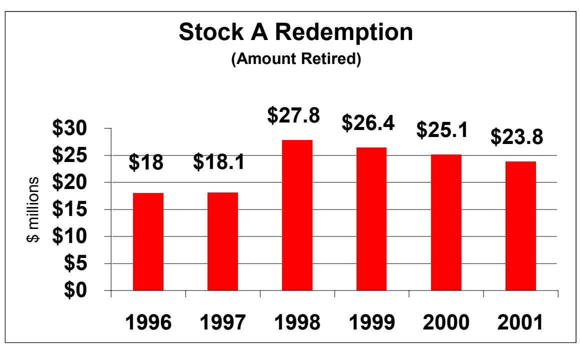
During fiscal year 2001, borrowers paid $147 million in principal and $78.7 million in interest. The interest figure includes $1.7 million in prepayment premiums. As of fiscal year ending 2001, payments made to the Bank amounted to $1,743.3 million in principal and $2,377.8 million in interest.



Stock Redemption

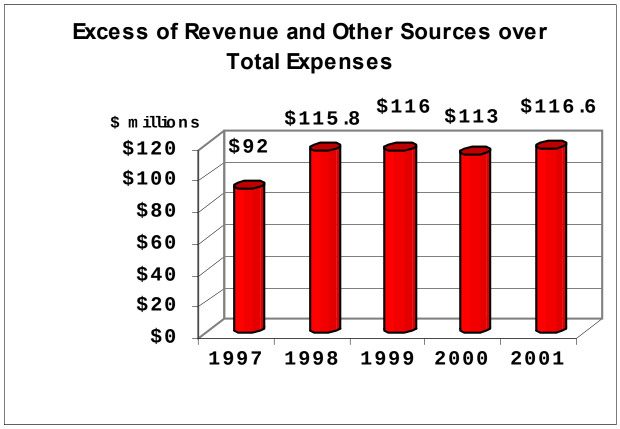
No additional Class A stock was purchased by the Government during fiscal year 2001. The cumulative total of Class A stock purchases to date is $592.1 million. In accordance with Board Resolution 2001-2, $23.8 million in Class A stock was redeemed on September 30, 2001; leaving a net outstanding of $452.9 million. This was the sixth consecutive annual redemption of Class A stock.





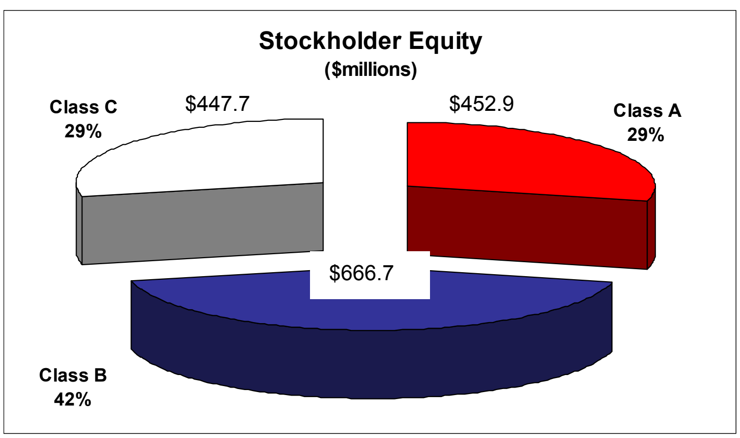
Interest Income and Patronage Capital Assignable

Restricted capital and patronage capital at the end of fiscal year 2001 totaled $95.7 million. During fiscal year 2001, interest and other income was $138.3 million. Expenses amounted to $20.0 million, leaving an excess of revenues and other financing sources over total expenses of $116.6 million. A return of $9.5 million paid to the U.S. Treasury and a cash dividend of $20.6 million paid to Class C stockholders resulted in patronage capital assignable of $86.5 million.



Stock Sales

Bank borrowers purchased $2.9 million in Class B stock, bringing the cumulative total purchased to $135.9 million. Total Class B stock outstanding, including patronage refunds and net of amounts converted to Class C stock, decreased by $14.8 million during fiscal year 2001, to $666.7 million. Cumulative Class C stock rose to $447.7 million, an increase of $102.9 million during fiscal year 2001.



Financial Statement

As of September 30, 2001
(in dollars)

Balance Sheet

Assets	
Assets for Use by Entity:	
Federal	
Fund Balance with Treasury (Note 2)	$ 904,650,796
Non-Federal	
Credit Program Receivables, Net (Note 3)	1,069,670,859
Total Assets	1,974,321,655
Liabilities	
Liabilities Covered by Budgetary Resources:	
Federal	
Accounts Payable	$ 3,118,000
Debt (Note 4)	272,733,633
Non-Federal	
Other Liabilities (Note 5)	20,675,583
Total Liabilities	296,527,216
Commitments and Contingencies (Note 6)	
Net Position	
Unexpended Appropriations (Note 7)	19,115,171
Federal	
Equity of the U.S. Government	
Capital Stock Class A	452,865,475
Subsidy Re-estimates	(4,395,000)
Total Equity of the U.S. Government	448,470,475
Non-Federal	
Investment of Others	
Capital Stock Class B	666,730,835
Capital Stock Class C	447,722,000
Restricted Capital	10,000,003
Patronage Capital Earned	85,755,955
Total Investment of Others	1,210,208,793
Total Net Position	1,677,794,439
Total Liabilities and Net Position	$ 1,974,321,655

Statement of Budgetary Resources

Budgetary Resources: (Note 9)	
Budget Authority	$ 163,057,341
Unobligated balances – beginning of period	642,636,296
Spending Authority from offsetting collections	292,183,424
Adjustments	(89,840,190)
Total budgetary resources	$ 1,008,036,871
Status of Budgetary Resources:	
Obligations incurred	$ 230,606,932
Unobligated balances-available	12,298
Unobligated balances-not available	777,417,641
Total status of budgetary resources	$ 1,008,036,871
Outlays:	
Obligations incurred	$ 230,606,932
Less: actual spending authority from offsetting collections and actual adjustments	(323,300,659)
Obligated balance, net - beginning of period	1,038,758,567
Less: obligated balance, net - end of period	(1,123,328,441)
Total outlays	$ (177,263,601)

The accompanying notes are an integral part of these statements.

Financial Statements

For the Year Ended September 30, 2001
(in dollars)

Statement of Net Cost

Costs:	
Program Costs	
Federal	$ 23,018,400
Non-Federal	
Loans - Subsidy Expense (Note 3)	2,380,534
Other Program Costs	1,310,470
Total Program Production Costs	26,709,404
Less Earned Revenues (Note 8)	(137,229,307)
Net Cost of Operations	$ (110,519,903)

Statement of Changes in Net Position

Net Cost of Operations	$ 110,519,903
Financing Sources (other than exchange revenues):	
Appropriations Used	7,749,934
Transfers-out	(32,854,882)
Changes in:	
Capital Stock - Redemption of Class A Stock	(23,835,025)
Investment of Others	2,799,071
Net Change in Cumulative Results of Operations	64,379,001
Increase (Decrease) in Unexpended Appropriations	(697,071)
Change in Net Position	63,681,930
Net Position-Beginning of Period	1,614,112,509
Net Position-End of Period	$ 1,677,794,439

Statement of Financing

Resources Used to Finance Operations	
Budgetary	
Budgetary Resources Obligated for Items to be Received or Provided to Others	$ 230,606,932
Less: Offsetting Collections, Recoveries of Prior-years Authority, and Changes in Unfilled Customer Orders	(323,285,809)
Net Budgetary Resources Used to Finance Operations	(92,678,877)
Total Resources Used to Finance Operations	(92,678,877)
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	114,452,851
Budgetary Offsetting Collections not Increasing Exchange Revenue or Decreasing Expense	(156,174,760)
Adjustments Made to Compute Net Budgetary Resources not Affecting Net Cost of Ops.	57,276,762
Resources Funding Expenses Recognized in Prior Year	0
Total Resources Used to Fund Items not Part of the Net Cost of Operations	15,554,853
Resources Used to Finance the Net Cost of Operations	(108,233,730)
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	(2,627,173)
Expenses which will be Financed with Budgetary Resources Recognized in Future Periods	341,000
Total Components of Net Cost of Operations not Requiring or Generating Resources During the Reporting Period	(2,286,173)
Net Cost of Operations	$ (110,519,903)

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 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 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.

The Credit Program Receivable footnote has been prepared to improve financial reporting for subsidy costs and performance of Federal credit programs as required by May 2000 Statement of Federal Financial Accounting Standard No. 18, Amendments to Accounting Standards for Loans and Loan Guarantees. RTB implemented this reporting requirement in fiscal year 2001, and therefore the fiscal year 2000 information is presented for comparative purposes and has not been audited.

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 consist solely of amounts payable to the United States Treasury based on credit reform subsidy reestimates.

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 for several years since the pre 1992 fund balance is sufficient to advance new loans. In addition, the pre 1992 outstanding debt balance was repaid in August 2001.

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.

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

2001

	Obligated	Unobligated		Total
		Available	Expired Authority	
Revolving Funds	$ 116,659,164	$ 768,876,461	$ 0	$ 885,535,625
Appropriated Funds	16,180,546	12,298	2,922,327	19,115,171
Total Fund Balance with Treasury	$ 132,839,710	$ 768,888,759	$ 2,922,327	$ 904,650,796

2000

	Obligated	Unobligated		Total
		Available	Expired Authority	
Revolving Funds	$ 120,024,489	$ 636,335,113	$ 0	$ 756,359,602
Appropriated Funds	14,745,621	424,345	4,642,276	19,812,242
Total Fund Balance with Treasury	$ 134,770,110	$ 636,759,458	$ 4,642,276	$ 776,171,844

NOTE 3: DIRECT LOANS, NON FEDERAL BORROWERS

Purpose

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

RTB makes telecommunications loans to public bodies, cooperative, nonprofit, limited association or mutual associations. RTB loans are made concurrently with Rural Utilities Service (RUS) cost-of-money loans to finance the improvement, expansion, construction, and acquisition of systems or facilities that improve telephone service in rural areas. However, RTB does not finance station apparatus owned by the borrower, headquarters facilities, and vehicles not used primarily in construction.

Eligibility

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

Repayment Period and Interest Rates

Loans must be repaid within a period that approximates the expected useful life of the facilities to be financed, not to exceed 35 years. Generally, interest is payable each month as it accrues. Principal payments on each note generally are scheduled to begin 2 years after the date of the note. After this deferral period, interest and principal payments on all funds advanced during this 2-year period are scheduled in equal monthly installments. RTB loans will bear interest at a rate equal to the cost of funds to RTB. However, the rate will not be less than 5 percent.

Servicing Options

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

Accounting Policy

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.

The Credit Program Receivable footnote has been prepared to improve financial reporting for subsidy costs and performance of Federal credit programs as required by the May 2000 Statement of Federal Financial Accounting Standard No. 18, Amendments to Accounting Standards for Loans and Loan Guarantees. RTB implemented this reporting requirement in fiscal year 2001, and therefore the fiscal year 2000 information is presented for comparative purposes and has not been audited.

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

	2001	2000
Loans Receivable, Gross	$ 793,902,283	$ 923,673,900
Interest Receivable	$ 2,815,782	$ 2,483,485
Allowance for Loan Losses	$ (5,703,321)	$ (6,396,633)
Value of Assets Related to Direct Loans	$ 791,014,744	$ 919,760,752

Direct Loans Obligated After FY 1991 (Present Value Method):

	2001	2000
Loans Receivable, Gross	$ 290,794,551	$ 246,163,246
Interest Receivable	$ 251,165	$ 113,912
Allowance for Subsidy Cost (Present Value)	$ (12,389,601)	$ (9,123,793)
Value of Assets Related to Direct Loans	$ 278,656,115	$ 237,153,365
Total Portfolio Value of Assets Related To Direct Loans	$ 1,069,670,859	$ 1,156,914,117

Total Amount of Direct Loans Disbursed:

	2001	2000
Direct Loans Obligated Prior to FY 1992	$ 6,384,970	$ 10,994,885
Direct Loans Obligated After FY 1991	$ 52,767,444	$ 29,962,912

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed

	2001	2000
Interest Differential	$ 676,141	$ 372,693
Defaults	$ 10,494	$ 5,305
Fees and Other Collections		$ (56,117)
Other	$ 15,899	$ (2)
Total	$ 702,534	$ 321,879

Reestimates

	2001	2000
Interest Rate Reestimates	$ 11,135,000	$ (5,995,000)
Technical Reestimates	$ (9,457,000)	$ 5,635,000
Total	$ 1,678,000	$ (360,000)
Total Direct Loan Subsidy Expense:	$ 2,380,534	$ (38,121)

Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans by Program and Component

	2001	2000
Interest Differential	1.60%	1.28%
Defaults	0.03%	0.04%
Other Collections	-0.15%	0.56%
Total	1.48%	1.88%

Schedule for Reconciling Subsidy Cost Allowance Balances:

(Post- FY 1991 Direct Loans)

Beginning Balances, Changes, and Ending Balances	FY 2001	FY 2000
Beginning balance of the subsidy cost allowance:	$ 9,123,793	$ 9,115,495
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	676,141	372,693
(b) Default costs (net of recoveries)	10,494	5,305
(c) Fees and other collections	15,899	(56,119)
Total of the above subsidy expense and components	$ 702,534	$ 321,879
Adjustment:		
(a) Subsidy allowance amortization	2,003,781	889,419
(b) Other	(74,508)	(66,000)
Ending balance of the subsidy cost allowance before reestimates	$ 11,755,600	$ 10,260,793
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	11,135,000	(5,995,000)
Less: interest income amortized above	(1,044,000)	(777,000)
(b) Technical/default reestimate	(9,457,000)	5,635,000
Total of the above reestimate components	$ 634,000	$ (1,137,000)
Ending balance of the subsidy cost allowance	$ 12,389,600	$ 9,123,793

	FY 2001	FY 2000
Administrative Expense	$ 2,993,400	$ 3,000,000

NOTE 4: DEBT

2001

	Beginning Balance	Net Borrowings	Ending Balance
Federal Debt			
Interest Bearing:			
Debt to the Treasury	$ 295,202,110	$ (22,468,477)	$ 272,733,633

2000

	Beginning Balance	Net Borrowings	Ending Balance
Federal Debt			
Interest Bearing:			
Debt to the Treasury	$ 307,831,271	$ (12,629,161)	$ 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, 2001 and 2000, RTB's maximum borrowing authority approximated $33 billion, and $32 billion, respectively. All Federal debt is covered by budgetary resources.

NOTE 5: OTHER LIABILITIES

Dividends declared and unpaid on Class C Stock to non-federal recipients in the amount of $ 20.7 million and $18 million as of September 30, 2001 and 2000, and are payable on December 15, 2001. 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 which, in the absence of contractual violations or cancellations, will require disbursements. Unliquidated loan obligations at September 30, 2001 and 2000, total approximately $1,103 million, and $1,021 million, respectively.

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

NOTE 7: UNEXPENDED APPROPRIATIONS

Unexpended Appropriations	**2001**	**2000**
Unobligated	$ 2,934,624	$ 5,066,621
Undelivered Orders	16,180,547	14,745,621
Total Unexpended Appropriations	$ 19,115,171	$ 19,812,242

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. Unobligated appropriations are returned to the U.S. Treasury when their period of availability expires.

Rural Telephone Bank (RTB) Capital Stock

A summary of the RTB capital stock structure follows:

	September 30, 2001	September 30, 2000
CAPITAL STOCK CLASS A ($1 par value)		
Shares authorized	600,000,000	600,000,000
Shares issued and outstanding	452,865,475	476,700,500
Cash dividends	$ 9,534,010	$ 10,035,800
CAPITAL STOCK CLASS B ($1 par value)		
Shares authorized	Unlimited	Unlimited
Shares issued and outstanding	666,730,835	681,518,810
Stock dividends	$ 85,297,954	$ 90,515,784
CAPITAL STOCK CLASS C ($1,000 par value)		
Shares authorized	Unlimited	Unlimited
Par Value, shares issued and outstanding	$ 447,722,000	$ 344,837,000
Cash dividends (accrued)	$ 20,675,583	$ 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, 2001, in accordance with Section 406 (c) of the Rural Electrification Act of 1936 (RE Act) as amended, the sixth redemption of Class A stock occurred. On September 30, 2001 and 2000, in accordance with Bank Board resolution 2001-2 and 2000-6, the sixth and fifth redemption's of Class A stock, in the amounts of $23.8 million and $25.1 million occurred, leaving balances of $452.9 and $476.7 million outstanding, respectively.

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 on liquidating account loans, based on the ratio of interest revenue to RTB from each holder to RTB's total interest revenue from all liquidating account Class B stockholders. Stock subscriptions relating to unadvanced loans approximated $52 million and $47 million at September 30, 2001,and 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. 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. 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, 2001, and 2000, B stock exchanges of $86.7 million and $21.7 under the latter method have occurred.

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, 2001, and 2000, restricted capital was $10 million and $ 9.9 million, respectively. 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 the 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:
    - 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.
    - 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.

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, 2001, 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, 2001 and 2000, in accordance with Bank Board resolution 2001-2 and 2000-6, the sixth and fifth redemption of Class A stock, in the amounts of $23.8 million and $25.1 million occurred, leaving a balance of $452.8 million and $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

	September 30, 2001	September 30, 2000
Federal:		
Interest Revenue from Treasury	$ 59,614,569	$ 57,866,623
Total Federal	59,614,569	57,866,623
Non-Federal:		
Interest and Penalties Revenue	77,614,738	81,405,151
Total Non-Federal	77,614,738	81,405,151
Total Earned Revenues	$ 137,229,307	$ 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 activities. The main reason is that RTB establishes its cost of money on an annual basis in a manner which enables it to recover all related costs.

NOTE 9 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

- The net amount of budgetary resources obligated for undelivered orders as of September 30, 2001 and 2000, is approximately $1,103 million and $1,021 million, respectively.

- The amount of Federal borrowing authority available as of September 30, 2001 and 2000, is approximately $996 million and $904 million, respectively.

- 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:*

	2001	2000
Federal:		
Actual Recoveries of Prior Year Obligations	$ 31,102,385	$ 78,198,724
Redemption of Debt	(118,790,620)	(51,673,540)
Other authority withdrawn	(2,151,955)	(56,534,711)
Total Adjustments	$ (89,840,190)	$ (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. Other authority withdrawn consisted of cancellations for the year of $2.2 million FY 2000: ($55.9 million) less adjustment to C stock dividend payable of $14,850 FY 2000: ($612,655).

- *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.

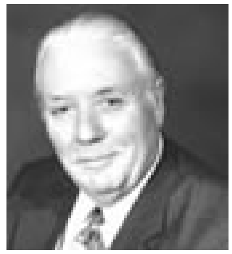
The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the permanent indefinite appropriations footnote disclosure.

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.

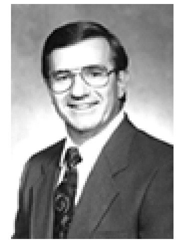
Board of Directors

Representing the Cooperative Industry

David Crothers
Executive Vice President
North Dakota Assn. of Telephone Co-ops
Member since 1998



John McAllister, *Treasurer*
President
West Carolina Rural Telephone Co-op Inc.
Member since 1974



Larry E. Sevier
Chief Executive Officer
Rural Telephone Service Co., Inc.
Member since 1994

Representing the Commercial Industry

John T. Dillard
President
Monroe Telephone Company
Member since 1998

S. Michael Jensen
Chief Executive Officer
Great Plains Communications, Inc.
Member since 1992

Curtis S. Sampson, *Secretary*
Chairman & Chief Executive Officer
Hector Communications, Inc.
Member since 1988

Representing the Public

Robert Lee Stanton
Farmer and businessman from Missouri
1995 to May, 2002

Representing the U.S. Department of Agriculture

Appointments Pending

Governor

Appointed September, 2001

Stockholder Questions

Please write to:

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Rural Telephone Bank
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More Information

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

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