U.S. Department of Agriculture

Office of Inspector General

Audit Report

Rural Development's Financial Statements for Fiscal Years 2009 and 2008

Audit Report 85401-17-FM
November 2009

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 10, 2009

REPLY TO
ATTN OF: 85401-17-FM

TO: Dallas Tonsager
Under Secretary
for Rural Development

ATTN: John M. Purcell
Director
Financial Management Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2009 and 2008

This report represents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2009 and 2008. The report contains an unqualified opinion on the financial statements as well as the results of our assessment of Rural Development's internal control over financial reporting and compliance with laws and regulations. Your response to the draft report, dated November 5, 2009, is included in its entirety as exhibit B.

Based on the agency response provided and included in this report, we reached management decision on all recommendations included in the report. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us during these audits.

Table of Contents

Rural Development's Financial Statements for Fiscal Years 2009 and 2008 (Audit Report 85401-17-FM)

Executive Summary

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position, net costs, changes in net position, and related combined statements of budgetary resources; (2) the internal control objectives over financial reporting were met; and (3) Rural Development complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements. We also determined that the information in Management's Discussion and Analysis was materially consistent with the information in the consolidated financial statements.

We conducted our audits at Rural Development's Office of the Deputy Chief Financial Officer and Centralized Servicing Center in St. Louis, Missouri, and the Rural Development national office in Washington, D.C. We also performed site visits to selected Rural Development field offices.

Results in Brief

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Development as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal controls over financial reporting identified three significant deficiencies: (1) Improvements are needed in controls over assumptions used to predict future cash flows for Rural Development's loan portfolio; (2) information technology security controls in the automated Rural Utilities Service (RUS) Legacy system need strengthening; and (3) improvements are needed in the annual review of Rural Telecommunications Program open obligations.

We believe the first deficiency represents a material weakness. Our report on compliance with laws and regulations did not disclose any instances of noncompliance.

Key Recommendations

We recommend that Rural Development improve its controls over the development, validation, and approval of assumptions used to predict cash flows. We also recommend that funds no longer needed are deobligated.

Agency Response

Rural Development agreed with the findings and recommendations. Rural Development's response to the audit report is included as exhibit B. Additionally, during the audit, Rural Development provided its plans for specific actions to be taken on the recommendations, including estimated completion dates.

OIG Position

Management decision has been reached on both recommendations made in the report.

Independent Auditor's Report

Dallas Tonsager
Under Secretary
for Rural Development

We have audited the accompanying consolidated balance sheets of Rural Development as of September 30, 2009 and 2008, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2009 audit, we also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

The following sections discuss our opinion on Rural Development's consolidated financial statements, our consideration of Rural Development's internal control over financial reporting; our tests of Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's as well as our responsibilities.

Opinion of the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Rural Development as of September 30, 2009 and 2008, and the related consolidated statements of net costs; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Development as of September 30, 2009 and 2008; and its net costs, and changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2009, Rural Development reclassified downward reestimates from "Intragovernmental Other Liabilities" to "Downward Reestimates Payable to Treasury General Fund" to conform to U.S. Department of Treasury guidance. Additionally, in fiscal year 2009, as discussed in Notes 1, 2, 4, and 25, Rural Development implemented Statement of Federal Financial Accounting Standards 31, *Accounting for Fiduciary Activity*.

The information in Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America and the Office of Management and Budget (OMB) Circular A-136. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of this information. Based on this limited work, we found no material inconsistencies with the consolidated financial statements, accounting principles generally accepted in the United States of America, or OMB guidance. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purposes described in the Responsibilities section of this report and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect Rural Development’s ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the financial statements being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our fiscal year 2009 audit, we noted certain matters described in the Findings and Recommendations section, involving the internal control over financial reporting and its operation that we consider to be significant deficiencies as follows: (1) Improvements are needed in controls over assumptions used to predict future cash flows for Rural Development’s loan portfolio; (2) information technology (IT) security controls in the RUS Legacy system need strengthening; and (3) improvements are needed in the Rural Telecommunications Program’s annual review of open obligations.

We believe the first deficiency represents a material weakness and is discussed in Findings and Recommendations, Section 1, Material Weakness in Internal Control Over Financial Reporting. The other two deficiencies are considered significant deficiencies and are discussed in the Findings and Recommendations, Section 2, Significant Deficiencies in Internal Control Over Financial Reporting.

We did not identify any material weaknesses that were not disclosed in Rural Development’s Federal Managers' Financial Integrity Act of 1982 (FMFIA) report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of Rural Development’s compliance as described in the Responsibilities section of this report. We noted no reportable instances of noncompliance with these laws and regulations. We limited our tests of compliance and did not test compliance with all laws and regulations applicable to Rural Development. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and information brought to our attention during our audit disclosed no instances of reportable noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04, as amended. Additionally, the results of our tests of Federal Financial Management Improvement Act of 1996 (FFMIA) disclosed no instances in which Rural Development's financial management systems did not substantially comply with FFMIA.

Responsibilities

Management's Responsibilities

Management is responsible for (1) preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad control objectives of the FMFIA are met, (3) ensuring that Rural Development's financial management systems substantially comply with the FFMIA requirements, and (4) complying with applicable laws and regulations.

Auditor's Responsibilities

Our responsibility is to express an opinion on the fiscal year 2009 and 2008 financial statements of Rural Development based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our audit, we considered Rural Development's internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04, as amended and *Government Auditing Standards*. We did not test all internal controls as defined by the FMFIA. The objective of our audit was not to provide an opinion on Rural Development's internal control. Consequently, we do not provide an opinion on internal control over financial reporting nor on Rural Development's assertion on internal control included in its MD&A.

As required by OMB Bulletin 07-04, as amended, we considered Rural Development's internal control over RSI by obtaining an understanding of the internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. The information in the RSI is not a required part of the consolidated financial statements, but is supplemental information required by the accounting principles generally accepted in the United States of America and OMB Circular A-136. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measurement and presentation of this information. Our procedures were not designed to provide an opinion on internal control over this information and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of Rural Development's compliance with certain provisions of laws and regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that Rural Development complied with certain provisions of other laws and regulations specified in OMB Bulletin 07-04, as amended, including requirements referred to in the FFMIA, except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to the provisions described in the preceding sentences and did not test compliance with all laws and regulations applicable to Rural Development. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Rural Development's response to the findings in our audit is included in exhibit B. We did not audit the response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the management of Rural Development, U.S. Department of Agriculture (USDA), OMB, the U.S. Government Accountability Office (GAO) and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Robert W. Young /s/
Assistant Inspector General
for Audit

November 5, 2009

Findings and Recommendations

Section 1: Material Weakness in Internal Control Over Financial Reporting

Finding 1: Improvements Needed in Controls Over Cash Flow Assumptions

Rural Development has various processes in place to ensure the accuracy and completeness of assumptions made to predict future cash flows for loans and loan guarantees (commonly referred to as "curve assumptions"). However, the overall controls surrounding these particular processes need improvement to prevent errors in the financial statements. Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported in the financial statements based on the present value of the net cash flows estimated over the life of the loan or loan guarantee. Thus, any errors in the assumption curves used in calculating the net cash flows could cause material misstatements to the financial statement.

Our review disclosed errors, described below, in the cash flow assumptions used in performing the annual reestimate calculations. The first five errors occurred due to the absence of a control requiring management's validation, review, and approval over the development of assumption curves. The last two errors occurred because a designed control did not operate effectively.

The following summarizes exceptions that we identified. We noted that management corrected the errors prior to finalizing the financial statements.

1. Incorrect formulas in the curve calculation produced an incorrect Unpaid Principal Balance decay factor percent in the reestimate calculation for multiple programs in two models.
2. Incorrect "Actual Fees Received" total used in the curve calculation produced an incorrect "Fees" assumption curve in the reestimate calculation for two programs.
3. Prepayment discount data for one program was incorrectly reported for year 16 due to an incorrect summation formula.
4. The loss curve for year 2 for one program was incorrectly calculated and subsequently used in the reestimate calculation.
5. Incorrect versions of the assumption curves for two programs were provided to the Budget Division for the reestimate calculations.
6. An incorrect formula was used in one program's assumption curve calculation and cohort sheet.
7. Data pertaining to another program were incorrectly used in the assumption curve calculations.

Federal Accounting Standards Advisory Board's Technical Release 6 Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act, Section 40 states, "The cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model."

Recommendation 1

Design and implement controls over the development, validation, and approval of assumption curves used in the cash flow models.

Agency Response

Rural Development will ensure detailed second party reviews are performed and documented by knowledgeable personnel who did not prepare the curve(s). The process will be documented and management will ensure the review and documentation are completed. Rural Development will complete all actions by July 31, 2010.

OIG Position

We concur with the management decision.

Section 2: Significant Deficiencies in Internal Control Over Financial Reporting

Finding 2: IT Security Controls Need Strengthening in the RUS Legacy System

We reviewed selected IT controls over the Rural Utilities Loan Servicing System (RULSS) and RUS Legacy System.[1] The RUS Legacy system is an aging and antiquated application that is being replaced by a more modern RULSS. Rural Development relies on these two automated systems to carry out agency loan programs, manage its resources, and report financial statement data for RUS loans totaling over $43 billion.[2] The reliability of RULSS and the RUS Legacy system data is critical to Rural Development meeting its mission.

We determined that controls over RULSS were generally in place and operational. However, we noted that controls over access, segregation of duties, and change management were lacking in the RUS Legacy system and the system did not always adhere to the requirements of the NIST SP 800-53. We discussed these issues with Rural Development officials and they have taken corrective action. Therefore, we are making no further recommendations in this report.

Finding 3: Improvements Are Needed in the Annual Review of Rural Telecommunications Program Open Obligations

Improvements are necessary in Rural Development's annual review of Rural Telecommunications Program open (unliquidated) obligations. Rural Development has a process for reviewing open obligations and certifying the validity of those obligations annually; however, we determined the process was ineffective for telecommunications programs. This condition occurred because Rural Development staff did not determine the validity of the obligation before certifying the report, and in doing so, did not properly identify and timely deobligate funds no longer needed. As a result, $77 million in open obligations were not timely deobligated and $33 million were certified inaccurately. Had funds not been deobligated prior to fiscal yearend, Rural Development's fiscal year 2009 Statement of Budgetary Resources would have been misstated.

Departmental Regulation (DR) 2230-0001, *Reviews of Unliquidated Obligations* (ULO), revised on April 21, 2009, required agencies to deobligate within 15 days after identifying that funds were no longer needed. It also states that reviews of ULOs are necessary to properly report obligation balances and certify the validity of obligated balances.

---

[1] Our review was based upon GAO's *Federal Information Systems Control* Audit Manual, dated February 2009 and the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information System*, dated December 2007.

[2] The systems maintain borrower account information, including payments and obligations, for electric, telephone, distance learning, broadband, and environmental loans.

Recommendation 2

Ensure that annual reviews are completed properly including the timely deobligation of funds no longer needed.

Agency Response

Rural Development agreed to perform a second party review to ensure that certification reports are accurately completed prior to submission by May 31, 2010. Additional internal guidance will be provided by March 31, 2010, to the Rural Telecommunications Program staff to ensure the certification reports are properly completed.

Rural Development will also develop a mechanism to track all Telecommunications Program ULOs requiring deobligation to ensure ULOs are deobligated within 15 days of fully substantiating that funds are no longer needed.

OIG Position

We concur with the management decision.

Abbreviations Used in This Report

DR	Departmental Regulation
FFMIA	Federal Financial Management Improvement Act of 1996
FISCAM	Federal Information Systems Control Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
GAO	Government Accountability Office
IT	information technology
MD&A	Management's Discussion and Analysis
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RULSS	Rural Utilities Loan Servicing System
RUS	Rural Utilities Service
SP	Special Publication
ULO	Unliquidated Obligations
USDA	U.S. Department of Agriculture

Exhibit A: Summary of Prior Year Recommendations

Audit 85401-15-FM[1]

<u>Finding 1:</u>

Recommendation 1

Document, explain, and provide support for any adjustments made to the cumulative cash difference.

Agency Response

Rural Development agreed to provide documentation and audit support for any adjustments to the cumulative cash differences for the Single Family Housing programs. The support will be provided for cumulative differences and adjustments with the June 30, 2009 business close.

Status

Open. Rural Development achieved Management Decision on December 9, 2008.
Rural Development provided OCFO documentation and audit support for adjustments to the cumulative cash differences for the Single Family Housing programs. OCFO is withholding a determination on final action until completion of the Fiscal Year 2009 Financial Statement Audit to ensure the credit reform recommendations were implemented properly.

Recommendation 2

Continue to make enhancements to the three direct cash flow models in fiscal year 2009 and implement those changes early in the fiscal year. This will allow more time to ensure that all changes to the models are properly made and reviewed.

Agency Response

Rural Development will implement the agreed upon changes to Models A and B, test the changes, and provide the updated models to OIG by March 31, 2009. Rural Development will also determine the feasibility of incorporating the Underwriters Program (Model 313A) into Model B by the same date. With regard to new Model D, Rural Development plans to deliver the populated and validated model by May 1, 2009.

Status

Open. Rural Development achieved Management Decision on December 9, 2008.
Rural Development provided OCFO with the Multi-Family Housing Model D data, a feasibility determination for incorporating the Underwriters Program (Model 313A) into Model B, and implemented changes to Models A and B. OCFO is withholding a determination on final action until completion of the Fiscal Year 2009 Financial Statement Audit to ensure the credit reform recommendations were implemented properly.

---

[1] Recommendations were made in Audit Report 85401-15-FM, *Rural Development's Financial Statements for Fiscal Years 2008 and 2007,* issued November 2008.

Audit 85401-14-FM[2]

<u>Finding 1:</u>

Recommendation 1

Ensure that all new cash flow design models are adequately documented and that quality control reviews are performed by the agency in time to provide for audit.

Agency Response

The Budget Division was implementing a multifaceted approach to strengthening the credit reform process in 2008. The Division planned to augment staffing in the Credit Reform Branch. In addition, the Division contracted for development of credit reform policies and procedures and independent testing of newly developed credit models.

Status

Closed. Rural Development achieved Management Decision on February 14, 2008. For final action, Rural Development provided OCFO with the results of the independent validation and verification performed on all new models. Budget Division provided OCFO with the staffing updates and all credit reform policies and procedures. OCFO accepted final action on November 6, 2008.

Recommendation 2

Document and explain any differences identified and provide support for the second party reviews performed.

Agency Response

Rural Development agreed to perform the timely reconciliation of the pivot tables including the key words for all models as of September 30, 2007. The reconciliation and support for second party reviews would be provided to OIG by March 31, 2008. For future years, Rural Development would develop a plan by June 30, to ensure the reconciliations are performed timely.

Status

Closed. Rural Development achieved Management Decision on February 14, 2008. Rural Development provided OCFO and OIG with the pivot table reconciliations performed as of September 30, 2007, and OCFO with the OIG agreed-upon plan for the reconciliations for future years. OCFO accepted final action on November 6, 2008.

Recommendation 3

Review data input to the reestimate process for accuracy and completeness. This should include documentation of a second party review.

[2] Recommendations were made in Audit Report 85401-14-FM, *Rural Development's Financial Statements for Fiscal Years 2007 and 2006*, issued November 2007.

Agency Response

Rural Development met with OIG in January 2008 and requested OIG to identify specific areas of concern. Upon receiving suggestions, Rural Development agreed to develop new credit reform checklists and procedures and provide to OIG by June 30, 2008, with full implementation and submission of checklist deliverables to OIG for their review during October 2008.

Status

Closed. Rural Development achieved Management Decision on March 3, 2008. For final action, Rural Development provided OCFO with any new or revised checklists and procedures for the reestimate process, as well as the completed checklists for fiscal yearend. OCFO accepted final action on November 6, 2008.

Audit 85401-13-FM [3]

Finding 1:

Recommendation 1

Ensure that cash flow models, data inputs, estimates, reestimates, and related financial reporting are subject to appropriate controls, including management oversight review.

Agency Response

Rural Development planned the following corrective actions: First, perform reconciliations of the obligations and disbursements included in the housing cash flow models to the Status of Allotment Ledger Accounts report and document and explain any differences. Second, expand the checklist for reviewing the 313A model data and reestimates. This will include verifying the distinction between annual and semiannual dollar amounts is maintained; the estimated interest rates for reestimates are replaced with actual interest rates for all years with actual rates that are known; and the principal repayments are scheduled for the correct years. Third, perform documented second party reviews and notate differences for quality control packages and data extracts.

Status

Closed. Rural Development achieved Management Decision on December 15, 2006.
Rural Development provided OCFO with copies of the housing reconciliations, the expanded 313A checklist, and the second party reviews performed at yearend. OCFO accepted final action on November 6, 2008.

---

[3] Recommendations were made in Audit Report 85401-13-FM, *Rural Development's Financial Statements for Fiscal Years 2006 and 2005,* issued November 2006.

Exhibit B: Agency Response

United States Department of Agriculture
Rural Development

NOV 0 5 2009

TO: Lynette Cockrell
Acting Regional Inspector General
Financial and IT Operations Division
Office of the Inspector General
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114

FROM: Dallas Tonsager
Under Secretary

SUBJECT: Response to Draft Audit Report on Rural Development's Fiscal Year 2009 Consolidated Financial Statements

---

We have reviewed the Office of Inspector General Draft Report on the Rural Development fiscal year 2009 consolidated financial statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree on their contents.

Rural Development will develop a plan of action to address the findings and recommendations identified during the audit. The plan will include the specific actions to be taken on the recommendations and their estimated completion date.

I would like to thank your office for its continuing professionalism in conducting the audit.

1400 Independence Ave, SW • Washington, DC 20250-0700
Web: http://www.rurdev.usda.gov

Committed to the future of rural communities.

USDA

RURAL DEVELOPMENT

FISCAL YEARS 2009 and 2008

(PREPARED BY RURAL DEVELOPMENT)

USDA Rural Development

Committed to the future of rural communities.

Consolidated Financial Statements

Fiscal Year 2009 and 2008

Rural Development

Management Discussion and Analysis (Unaudited)

Rural Development’s vision for rural America

Mission Statement

This Management Discussion and Analysis (MD & A), in conjunction with the accompanying consolidated financial statements, footnotes, and supplemental information, reflects the activities of the Rural Development mission area of the United States Department of Agriculture (USDA).

Rural Development’s vision is for a rural America that is a healthy, safe, and a prosperous place to live, work, and grow. Its mission is to be committed to the future of rural communities. Rural Development is partnered with the rural residents to help increase economic opportunity and improve the quality of life.

Rural Development invests in rural America to provide equity and technical assistance to finance and foster growth in home ownership, business developments, and critical community and technology infrastructures. Rural Development serves as a catalyst to improve life in rural America by offering financial and technical assistance, increasing the flow of capital through leveraged partnerships, and helping individuals and businesses compete in the global marketplace. These programs consist of a variety of loan, grant, and loan guarantee programs, plus technical assistance. Programs emphasize business and cooperative development, rural housing, community facilities, water and environment, electric power, and telecommunications, including distance learning and telemedicine.

USDA Rural Development has developed strategic goals that promote the implementation of its mission and vision, as well as, a set of management strategies to ensure that these goals are implemented effectively. Targeted marketing tactics, sound management practices, innovation in the use of resources, and reliance on enhanced technology are integral to achieving these goals.

Key Goal

Rural Development supports the USDA strategic goal to support increased economic opportunities and improved quality of life in rural America. The two key objectives Rural Development supports are (1) expand economic opportunities by using USDA financial resources to leverage private sector resources and create opportunities for growth; and (2) improve the quality of life through USDA financing of quality housing, modern utilities, and needed community facilities.

Organizational Structure

Rural Development's mission area is comprised of Rural Housing, Rural Utilities and Rural Business-Cooperative programs.

Loan Programs

Rural Development loan programs, with an outstanding portfolio of approximately $123 billion, are delivered through the National Office, 47 state offices, and a network of field offices. The mission area is supported by Operations and Management, including the Office of the Deputy Chief Financial Officer in St. Louis, Missouri, which provides accounting and service support for all mission area programs; the Budget Division in Washington, D.C., which performs budget formulation and execution functions; and the Centralized Servicing Center, also in St. Louis, which services the Direct Single Family Housing (SFH) portfolio. The mission area serves 298,421 SFH borrowers; 14,581 Multi-Family Housing (MFH) borrowers; 12,014 Business and Community borrowers; and 1,905 Telecommunications, Electric, Cable TV, Broadband and Distance Learning and Telemedicine borrowers.

In addition, through a network of approximately 3,788 lenders, Rural Development guarantees loans for approximately 337,895 SFH; 277 MFH; 3,000 business & community service; and 19 electric borrowers.

Rural Development loan programs generally (1) provide loans to individuals and enterprises that are at a greater risk of default, since they lack the financial resources to obtain credit in the private sector, and (2) make loans bearing an interest rate at or less than the cost of funds. Rural Development has the responsibility to protect the interest of the Government by adequately securing the loans with real estate mortgages, assignments of income, personal and corporate guarantees, and liens on revenues.

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2009 than in FY 2008. There was an increase in the direct portfolio from $79.4 billion to $83.7 billion and the guaranteed portfolio from $26.6 billion to $39.2 billion. This increase was in large part due to the implementation of the American Recovery and Reinvestment Act of 2009 (ARRA).

Total Loan Portfolio as of September 30, 2009 FY's 2007 Through 2009 (Dollars in Billions)	FY 07	FY 08	FY 09
Direct Loans			
Single Family Housing	$13.0	$13.2	$13.8
Multi-Family Housing	11.6	11.5	11.5
Community Facilities/Other	2.5	2.8	3.2
Water & Environmental/Other	9.3	9.9	10.4
Electric	36.0	37.4	40.0
Telecommunications	3.9	4.0	4.1
Business Programs	0.6	0.6	0.7
Total Direct	76.9	79.4	83.7
Guaranteed Loans			
Single/Multi-Family Housing	$17.2	$21.8	$33.6
Community Facilities/Other	0.6	0.6	0.8
Water & Environmental/Other	0.1	0.1	0.1
Electric	0.4	0.4	0.4
Business Programs	3.7	3.7	4.3
Total Guaranteed	22.0	26.6	39.2
Total Loan Portfolio	**$98.9**	**$106.0**	**$122.9**

Rural Development Programs

Rural Business-Cooperative Programs

The purpose of the Rural Business-Cooperative program (BCP) is to enhance the quality of life for all rural Americans by providing leadership in building energy efficient and competitive businesses and sustainable cooperatives that can prosper in the global marketplace. Rural Development works in partnership with the private sector and community-based organizations to provide financial assistance and business planning services. Rural Development helps fund projects that create or preserve quality jobs and promote clean rural environments. These financial resources are often leveraged with those of other public and private credit source lenders to meet business and credit needs in under-served areas. Eligible recipients include individuals, Indian tribes, corporations, partnerships, cooperatives, Institutions of higher learning and public bodies located in rural America. End user beneficiaries generally work with Rural Development's network of field offices and with lenders, intermediaries, and grantees to obtain access to capital and training.

The Business and Industry (B&I) Guaranteed Loan program's primary purpose is to create and maintain employment and improve the economic climate in rural communities. This is achieved by expanding the lending capability of private lenders in rural areas, helping them originate and service quality loans that provide lasting community employment benefits. The B&I program accomplishes this by providing loan guarantees to private lenders of up to 80 percent in most cases. These guaranteed loans can be used to fund business and industrial acquisition, construction, conversion, enlargement, repair or modernization. The maximum aggregate amount to any one borrower is $25 million, with certain cooperative rural business ventures eligible to receive loans up to $40 million.

In an effort to mitigate unacceptable growth in the delinquency rate of the guaranteed loan program, the Agency has placed an emphasis on oversight to assess and minimize risk in its $4.4 billion loan guarantee portfolio. BCP program staff identifies high risk loans and monitors the servicing activities for slow pay and delinquent borrowers.

The number of jobs to be created or saved in rural communities is a key performance measure as well as a critical element in determining the viability of a project for funding. For the B&I Guaranteed Loan program, the number of jobs created or saved is a one-time count credited to each loan when program funds are obligated. This number is based on information provided by the borrower and lender during the loan application process, usually as part of the content in a feasibility study or business plan. This information is then entered and tracked in the Agency's data management system Guaranteed Loan System (GLS). Verification and updates are done on a continual basis during the first year of the loan and in subsequent compliance or servicing visits.

Key Performance Indicator(s)

Rural Business-Cooperative Program	FY 2009 Target	FY 2009 Actual
Number of jobs created or saved through USDA financing of businesses	71,040	69,976

The objective for jobs created or saved was met in FY 2009. To calculate the projected target for jobs created and or saved, the B&I program used a jobs multiplier of 22.1 jobs per $1 million of B&I assistance. The FY 2009 target range for meeting the goal was 67,488-74,592. This represented a 5 percent spread from the projected target.

Utilizing the Intermediary Relending Program (IRP), Rural Development provides direct loans at an interest rate of one percent to community-based intermediaries to re-lend for business development and expansion projects in rural communities, including cities with a population of less than 25,000 people. Private non-profit corporations, public agencies, Indian tribes, and cooperatives are eligible to become intermediaries. Loan interest and fee revenue received by the intermediary covers administrative costs and debt retirement. Direct loan funds are used to capitalize rural revolving loan funds and are re-loaned to local small businesses that are not yet eligible for traditional bank loans. Ultimate borrowers must demonstrate an ability to start or expand local businesses, thereby creating employment or saving existing rural jobs.

The Rural Business Enterprise Grant (RBEG) program makes grants to public bodies, private non-profit corporations, and Federally-recognized Indian tribes to finance and facilitate the development of small and emerging business enterprises. Funds can be used to provide technical assistance such as marketing studies or training, to small and emerging businesses. In addition, small and emerging businesses can use these funds to purchase machinery, establish initial capital for revolving funds, or construct facilities for business incubators.

The Rural Economic Development Loan (REDL) and Rural Economic Development Grant (REDG) programs provide zero interest loans and grants to Rural Development utility borrowers to promote sustainable rural economic development and job creation projects. Zero percent interest loans are used by electric or telephone utilities to relend to eligible recipients.

The purpose of the Rural Business Opportunity Grants (RBOG) is to promote sustainable economic development in rural communities with exceptional needs. This is accomplished by making grants to pay costs of providing economic planning for rural communities, technical assistance for rural businesses, and training for rural entrepreneurs or economic development officials.

Section 9007 Rural Energy for America Program (formerly Section 9006 Renewable Energy/Energy Efficiency Improvement Program) has awarded over $188.5 million in grants and $152.3 million in loans since 2003. The benefits of the program have included replacing energy generated from fossil fuels with renewable energy generation and reducing greenhouse gas emissions. Moreover, since the program’s inception, approximately, 7,453 million kilowatt hours of energy have been saved and 8.1 million metric tons of carbon dioxide have been redeemed directly from projects funded by REAP. State Rural Development offices promote and screen applicants for both grants and loans.

The Value Added Producer Grant program provides rural producers the opportunity to enhance their share of revenues received for their processed products. Grants can be used for working capital or feasibility studies. These grants to rural businesses for expansion, modernization or start-up, enhance the local job market mix and improve the local tax base. As a result, the overall local rural economy is stimulated, jobs are created, and quality of life improves for most citizens.

The Rural Cooperative Development Grants are being awarded to nonprofit corporations and institutions of higher education to finance up to 75 percent of the cost of establishing and operating Centers for Cooperative Development. These funds help strengthen the rural economy and assist farmers, ranchers, and rural business owners across the nation in establishing and marketing cooperatives.

The Small Minority Agriculture Producer grants are made to Cooperatives or Associations of Cooperatives whose primary focus is to provide assistance to small, minority agriculture producers and whose governing board and/or membership is comprised of at least 75 percent minority.

In Fiscal Year 2009, the Socio-Economic Benefit Assessment System (SEBAS) was to be used to assess the local and regional economic performance of the several BCP programs. However, due to the need to work out data integrity issues, SEBAS was not implemented.

Key Performance Indicator(s)

Rural Business – Business & Industry Guaranteed Loans and Grants	FY 2009 Target	FY 2009 Actual
Delinquency rate (excluding bankruptcy cases)	12%	9.46%
Small businesses assisted	14,128	21,415
Millions of kWh generated	1,392	1,057

All targets were not met. While delinquencies decreased, the opportunity to fund large projects providing larger kWh per dollar invested was substantially diluted due to state allocation which reduced the number of large projects.

Community Development Programs

Effective community development involves multiple partners working together on an effort that is long-term (often 10 years or more) and comprehensive, covering jobs, education, health care, water quality, and many other aspects of community life. Community leaders and citizens are the lead players in developing and implementing a local strategic plan. In many distressed rural communities-reflected in high poverty rates, high unemployment rates, and/or high outmigration rates- USDA-Rural Development is a critical partner in successful community development.

USDA-Rural Development often performs two functions in ensuring that a distressed community can develop and implement a successful approach to community development. First, USDA-Rural Development provides funding for both the creation and the implementation of a community's strategic plan. For more than a decade, 60 highly distressed communities have been provided multi-year grants through the Empowerment Zone-Enterprise Community (EZ/EC) program. Second, USDA-Rural Development staff provides technical assistance on key community development skills such as strategic planning, nonprofit board responsibilities, and fiscal management; this technical assistance is often vital for the success of a community's work. In addition, community development technical assistance has provided assistance to distressed rural communities designated as Rural Economic Area Partnership (REAP) zones and Champion Communities (CC). REAP and CC agree to implement their strategic plans with the assistance of Rural Development. This assistance does not include direct grant funding, but does encourage utilization of other programs and funding sources both within and outside USDA to assist with strategic plan implementation.

For USDA-Rural Development to effectively serve its customers and provide the high quality technical assistance that will enable distressed communities to thrive, strong staff competence in community development skills is necessary. Thus, USDA-Rural Development staff training is an essential element of community development success.

Indicators of effective community development look at the economic impact as well as the capacity building aspects. Two key indicators of successful community development are: 1) the creation and maintenance of a strong job base and 2) human capacity building. The number of clients receiving education and training for example, will ultimately have a direct bearing on the ability of clients to acquire job skills and employment. The creation and maintenance of a strong job base is a necessary ingredient for every community. Each community must also have an opportunity to acquire skills which will allow its citizens to plan, mobilize, and reach far beyond USDA-Rural Development for the financial and other resources (including partners) needed to implement its strategic plan and build a vibrant community.

Key Performance Indicator(s)

Community Development Programs	FY 2009 Target	FY 2009 Actual
Number of jobs created and saved in Rounds I, II and III EZ/EC/CC & REAP Communities	2,000	6,373
Rounds I, II & III EZ/EC/CC & REAP communities' leveraged dollars	$500,000,000	$478,088,795

While the number of jobs created and saved increased and the target was exceeded, leveraged dollars were only 96 percent of the actual performance indicator target because of cutbacks in federal and private sector funding.

The actual numbers presented are generated using the Benchmark Management System (BMS). BMS is used to track the progress that each community is making achieving its various objectives, including the creation and saving of jobs and the leveraging of dollars.

The number of Champion Communities has continued to decline from 60 to 50. Champions must report at least annually on their progress in implementing their strategic plans; maintain updated benchmarks; and sign a memorandum of agreement with USDA. Those communities not meeting the requirements were dropped from the program.

Housing & Community Facilities Programs

Single Family Housing

Housing & Community Facilities programs improve the quality of life in rural America by building competitive, vibrant rural communities. To promote homeownership, Rural Development provides mortgage financing to low income rural families unable to obtain credit elsewhere. The direct loans and loan guarantees require no down payment and have favorable rates and terms.

The Single-Family Housing Direct (SFH-D) Loan Program began in 1950 and, as it marks its 60th year, the loan program has made home ownership possible to 2.1 million low-income rural families. SFH-D loans are made to families or individuals with very-low and low incomes to buy, build, improve, repair, and/or rehabilitate homes in rural areas. These loans are repayable over 33 years (with a maximum repayment of 38 years) and feature a subsidy that can reduce the effective interest rate to as low as 1 percent. Low-interest loans and grants enable very-low income rural homeowners to remove health and safety hazards in their homes and to make homes accessible for people with disabilities.

Rural Development Housing and Community Facilities programs back loans from more than 2,400 approved lenders, many of which submit applications and receive guarantee commitments electronically using the on-line Guaranteed Underwriting System (GUS). Loans are guaranteed up to 90 percent of the loan amount. Guaranteed loans are available for low- and moderate-income families and are repaid over 30 years at a typical market interest rate.

With the housing crisis now affecting lenders nationwide, USDA-Rural Development's guaranteed program is one of the few remaining mortgage programs providing loans with no down payment required. While the program maintains strict underwriting criteria, demand for the program has skyrocketed to historic levels. The number of guaranteed loans to purchase homes increased by 132 percent in FY 2009 to an all time high of 133,045. A significant portion of the increase was the result of ARRA funding, which accounted for 73,348 loans totaling $9.04 billion.

The following table reflects one of the key performance indicators for SFH-D and guaranteed loan programs' objective of improving the quality of life for Americans in rural communities by providing access to decent, safe, affordable housing. The program provides the 100 percent loan-to-value financing needed to place qualified applicants in modest single family homes. Their quality of life is improved through the advantages of homeownership, which is the American Dream.

Key Performance Indicator(s)

Single Family Housing	FY 2009 Target	FY 2009 Actual
Homeownership opportunities provided	142,608[1]	156,341

In FY 2009, USDA assisted 142,068 households with home loans, grants, and guarantees of home loans by approved lenders. Of this number, 11,509 were obtained through the Section 502 Direct loan program, 120,132 obtained loan guarantees and 10,427 obtained low- interest loans or grants for repairs. This is the largest number of rural families ever assisted to meet their housing needs in one year.

Additional funding was again available as a result of hurricanes and other natural disasters which brought total opportunities provided to 156,341 households. Reported Section 502 guaranteed and direct loans included 13,554 provided with Hurricane Supplemental and Natural Disaster Funds. An additional 719 households obtained Section 504 Repair loans and grants from these special allocations.

The average loan increased 9.6 percent. Even as the overall real estate market has cooled, strong demand for both Direct and Guaranteed loans is expected to continue as these programs draw greater interest from lenders and affordable home buyers.

For Direct SFH loans, delinquency rates provide a good indicator of how well the accounts are monitored and supervised as well as "output" as it is a measure of those obtaining financing that are successful and are building homeownership equity.

Key Performance Indicator(s)

Single Family Housing	FY 2009 Target	FY 2009 Actual
Delinquency Rate (Direct loans only)	Within 200 basis points of Federal Housing Administration (FHA) Rate	Rate is 72 basis points below FHA
Delinquency Rate (Guaranteed loans)	Within 50 basis points of FHA Rate	Rate is 265 basis points below FHA

The June 2009 FHA gross delinquency rate was 16.68 percent, with SFH-D at 15.96 percent. This exceeds the target of being within 200 basis points of the FHA. (The June

[1] Note: The target includes 131,080 Section 502 direct and guaranteed loans (including refinance and subsequent loans) and 11,528 Section 504 loans and grants. Loans funded with ARRA appropriations are included; however, natural disaster loans are not.

2009 rate is the latest published FHA statistic. This statistic includes all delinquent loans such as bankruptcies and foreclosures in process for SFH-D and FHA.)

The SFH-D fiscal year-end delinquency of 17.2 percent is above the previous year rate of 15.8 percent. The increase results from the weakening in the national housing market and the downturn in the overall economy.

The Single Family Housing Guaranteed (SFH-G) loan delinquency rate net of foreclosures was 11.05 percent in June, 2009. This rate is significantly below the FHA rate of 13.70 percent, also exceeding the target for FY 2009. The SFH-G rate in September, 2009, at 12.16 percent (net of foreclosures) is up from the September 2008 rate of 11.24 percent. The delinquency rate, while better than FHA's, has been affected by a declining housing market and troubles in the general economy.

It is important to note the Rural Development housing delinquency rate for both the Direct and guaranteed programs compare favorably to other private and government-sponsored lenders. Despite serving a similar (or even lower income) clientele, Rural Development has maintained strong underwriting standards and reasonable servicing measures to allow its lower income families to succeed as homeowners.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) program finances Rural Rental Housing (RRH), Farm Labor Housing, and Cooperative Housing for low income and elderly residents in rural communities of fewer than 10,000 in population. Rental Assistance may be provided to low and very low income residents to keep rents affordable.

Rural rental housing loans enable developers and co-ops to provide housing for the elderly, disabled individuals, and families who cannot afford the purchase price and maintenance costs of their own homes.

The farm labor housing program enables farmers, public or private nonprofit organizations, and units of state and local governments to develop or rehabilitate farm labor housing. Seasonal and year-round workers benefit from farm labor housing loans and grants by having safe, affordable housing.

The Housing Preservation Grant program enables local non-profits to encourage the rehabilitation of single and multi family structures by combining grant money with other funding sources to help low income residents repair and rehabilitate their homes.

Guaranteed rental housing loans provide Federal Government guarantees for loans made by commercial lenders to developers of MFH for low and moderate income tenants in rural areas. USDA guarantees up to 90 percent of a loan made by a qualified lender. The program is designed to complement other affordable housing sources of financing, such as low income housing tax credits.

To maintain an aging long-term quality portfolio, Rural Development has assessed the capital needs of its MFH portfolio to develop a long-term strategy for preserving projects in the portfolio for low-income residents. The result of these assessments established a section 515 multi-family portfolio revitalization program to provide for the 20 year deferral of repayments on existing debt, in exchange for project sponsors making necessary investments for the repair and rehabilitation of their projects.

Sustaining a low delinquency rate is an indicator to illustrate that the MFH loan portfolio is managed in a manner that is efficient and effective. Rural Development's goal to provide more quality housing to improve the lives of rural residents is achieved when delinquency and losses are minimized. By minimizing losses, the availability of affordable housing for eligible rural residents is maintained.

Key Performance Indicator(s)

Multi-Family Housing	FY 2009 Target	FY 2009 Actual
Number of projects with accounts more than 180 days past due	240	296

The MFH portfolio continued its revitalization program; however, the impacts of loan restructuring are a long-term effort. RD has begun to implement an aggressive servicing strategy to reduce the number of accounts that become delinquent.

Key Performance Indicator(s)

Multi-Family Housing	FY 2009 Target	FY 2009 Actual
Total number of units selected for funding for New Construction	4,500	3,671
Total number of units selected for funding for preservation	7,500	6,188
Decrease in number of families in substandard housing in the MFH portfolio	2,100	2,222
Decrease in number of families in the MFH properties paying more than 30 percent of income in rent	65,000	65,878
Increase in the amount of leveraged funds in Rural Rental Housing for both New Construction and rehabilitation	$501,597,588	$816,466,017

The number of New Construction units is expected to drop due to the elimination of the interest credit for the Guaranteed Rural Rental Housing Program, and the increased emphasis on preservation. The number of new construction units was impacted by two factors: the first was a 60 percent decrease in funding for the Guaranteed Rural Rental Housing Program from the FY 2008 level needed to keep the program at the same level for FY 2009, and the second was the greater emphasis on using these guaranteed funds for rehabilitation of existing affordable housing.

The number of units selected for preservation funding will be lower as the amount of budget authority being made available for the MPR demonstration program has been reduced by a third. It is not anticipated that last year's increase will be repeated. This was attributed to several factors including: the MFH Preservation and Revitalization efforts; the use of the Guaranteed Rural Rental Housing program rehabbing existing affordable housing properties; and the increased amount of leverage used in these rehabilitation deals, thereby allowing more units to be renovated per program dollar.

There was no significant change in the decrease of numbers of families living in substandard housing from the prior year.

The number of families paying more than 30 percent of their income toward rent decreased again in FY 2009; the actual number was lower than the target by more than 800 families. This continues the Program's efforts to better manage rental assistance and target utilization of assistance to those properties where the need is greatest. The Rental Assistance Program provides project-based rental assistance payments to property owners to subsidize the tenants' rent at an affordable level. By providing rental assistance, resources are directed to those rural communities and customers with the greatest need for housing.

An increase in the amount of leverage attracted to Multi-Family Housing properties may not be repeated as tax credit equity financing has seen a tremendous contraction. ARRA related funding sources will build those numbers back up. An increased emphasis in leveraging preservation transactions helped in exceeding our goal. A greater emphasis is being paid to attracting additional outside funds to these new construction and preservation transactions.

Community Facilities Programs

Community Facilities (CF) programs offer both direct and guaranteed loans to public entities such as municipalities, counties, and special purpose districts, as well as nonprofit corporations and Indian tribes. These loans improve the quality of life of rural residents by providing access to modern, essential community facilities. These include hospitals and health care clinics; fire, rescue and public safety facilities; educational facilities; nursing homes and assisted living facilities; and child and adult day care facilities. Recipients must demonstrate that they are unable to obtain financing from commercial sources. The term of the loan will be the useful life of the facility financed, State statute, or 40 years, whichever is less.

Historically, the largest dollar volume and number of loans and grants have gone to finance health care and public safety projects. Approximately 60 percent of CF projects fall into these two categories. The availability of these types of facilities is inarguably of vital importance in the current world climate. At the same time, these facilities are increasing in technological complexity and expense, putting them beyond the financial reach of many rural, isolated communities. Data for these measures is derived from actual obligations as reflected in the Guaranteed Loan System.

Key Performance Indicator(s)

Community Facilities	FY 2009 Target	FY 2009 Actual
Percentage of customers who are provided access to new and/or improved essential community facilities-Health Facilities	5.4%	5.5%
Percentage of customers who are provided access to new and/or improved essential community facilities-Safety Facilities	5.0%	9.05%

All key performance indicator targets were met.

Given the realities of the CF program operations, FY 2009 has been a successful year. With the delay in receiving regular program allocations until spring and with the emphasis on ARRA funds, as well as the availability of disaster funds for much of the country, it has been a challenging time. Challenges bring opportunities and America's rural communities rose to meet them. Individual communities determine their needs, including the timing and financial structure of development, based on various factors unique to each situation. Rural Development has no influence on the type or number of applications it receives in a particular year. However, more than 62 percent of the projects approved for this year fell into our two priority categories. Overall, more than 19 million rural Americans will enjoy an improved quality of life directly attributable to the $874 million investment in essential community facilities during Fiscal Year 2009.

Utilities Programs

The Utilities programs improve the quality of life in rural America by providing capital for its electric, telecommunications (including distance learning and telemedicine), and water and environmental projects in a service-oriented, forward-looking and financially responsible manner. The Utilities programs leverage scarce federal funds with private capital for investing in rural infrastructure, technology, and the development of human resources. Financial assistance is provided to rural utilities; municipalities; commercial corporations; public utility districts; Indian tribes; and cooperative, nonprofit, limited-dividend, or mutual associations. These entities are obligated to serve the public welfare and, in many instances, are subject to state regulatory oversight.

Electric Programs

As the electric industry continues to evolve toward a more competitive regionalized structure and responds to new environmental and national energy policy initiatives, Utility programs are ensuring the continued availability of reliable, high-quality electric service at a reasonable cost to rural consumers. The Electric programs provide financing and technical assistance to upgrade, expand, and maintain the vast electric utility infrastructure in rural America.

The Electric Programs make loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities, including system improvements and replacement required to furnish and improve electric service in rural areas. Eligible borrowers include corporations, states, territories, subdivisions, and agencies such as municipalities, utility districts, and cooperative, nonprofit, limited-dividend, or mutual associations that provide retail electric service needs to rural areas or power supply needs of eligible electric distribution systems in rural areas. The program staff services approximately 674 active electric borrowers in 46 states, plus the Marshall Islands, Puerto Rico, and American Samoa.

The electric borrowers in the United States (U.S.) include 618 distribution borrowers and 56 Generation and Transmission cooperatives and other rural power supply borrowers. Most electric borrowers are electric cooperatives. Nationwide, rural electric cooperatives serve approximately 42 million people in 47 states, 18 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in 2,500 of 3,141 counties. Cooperatives serve approximately 12 percent of the nation's population covering 75 percent of the nation's landmass.

Due to the lack of population and electric load densities, electric cooperatives generate less revenue per investment than other electric utilities. Electric cooperatives serve an average of 7 consumers per mile of line and collect annual revenue of approximately $10,565 per mile of line. Investor-owned utilities average 35 customers per mile of line and collect $62,665 per mile of line, while publicly owned utilities, or municipals, average 47 consumers and collect $86,302 per mile of line.

Rural Development's goal of improving the quality of life of rural residents by promoting and providing access to capital and credit for the development and delivery of modern affordable utility services is reflected in the following performance indicators.

Key Performance Indicator(s)

Electric Loans – Direct and Guaranteed Loans	FY 2009 Target	FY 2009 Actual
Number of borrowers' subscribers receiving new and/or improved electric facilities	6,125,000	9,759,417
Dollar amount of new and/or improved electric facilities	$6,600,000,000	$6,598,477,000

The targets were met. When compared to the overall goal of making $6.6 billion in loans, the total approved was 99.98 percent of the target and within the 5 percent margin.

The Electric programs offer the following financing assistance: Hardship Loans, Treasury Rate Loans, Municipal Rate Loans, and Loan Guarantees. The primary differences between the programs are the qualifying criteria and the interest rate for each type of financing.

Guaranteed loans are provided primarily through the Federal Financing Bank (FFB); however, guarantees have also been provided to the National Rural Utilities Cooperative Finance Corporation, and CoBank. The FFB is an agency within the U.S. Treasury providing funding in the form of loans for various government lending programs, including the loan guarantee programs. FFB loans are guaranteed by USDA and are available to all electric borrowers.

Telecommunications Program

In order to meet the goal of increasing economic opportunity in rural America, USDA annually finances new construction and upgrades to telecommunications infrastructure. Access to high-speed Internet services and other quality telecommunications services increases educational opportunities, improved availability of healthcare, job creation, retention and growth of businesses and other economic growth.

Since private capital for the deployment of broadband services in rural areas is not sufficient, incentives offered by Rural Development as a venture capital entity are vitally important. Providing rural residents and businesses with barrier-free access to the benefits of today’s technology will bolster the economy and improve the quality of life for rural residents and, ultimately, increase not only economic opportunity in rural America, but to the Nation as a whole.

Over the past 3 years, more than $2.8 billion in loans have been provided to 154 entities for the deployment of advanced, state-of-the-art telecommunications networks serving rural areas. The facilities financed with these loans must be capable of offering high-speed service to all subscribers that request it. The primary technologies used to deliver this service are “digital subscriber line” (DSL) service and “fiber-to-the-home” (FTTH) systems, although other technologies are also deployed.

The Telecommunications program contains four major components: 1) loans for infrastructure improvement and expansion 2) loans and grants for distance learning and telemedicine initiatives in rural areas 3) loans and grants specifically targeted for the deployment of broadband service in small towns and communities authorized under the Farm Bill and 4) loans and grants for broadband deployment in rural communities authorized under the ARRA. These programs provide USDA with a powerful tool in building strong rural economies and increasing educational and health care services in rural communities across the U.S.

Key Performance Indicator(s)

Telecommunication	FY 2009 Target	FY 2009 Actual
Number of borrowers' subscribers receiving new or improved telecommunication services	180,000	175,416
Percentage increase of borrowers' subscribers receiving new or improved telecommunication services	5.7%	-3.71%
Leveraging of telecommunications financial assistance (private investment to Rural Development funding)	$3.00:1	$2.60:1

The infrastructure program obligated all available funds in FY 2009. Despite this, all of the performance indicators were not met. Although the number of borrowers' subscribers was within the 'met' range (+ or - 3%), there was a decrease of more than 3 percent over FY 2008 subscribers. The leveraging target was not met. The explanation for these results is that most of the loans being awarded are for fiber-to-the-home projects. These usually require a larger investment and serve smaller numbers of subscribers than the more widely-deployed DSL systems.

Distance Learning and Telemedicine Program

The Distance Learning and Telemedicine (DLT) program is having an impact in rural America by assisting rural schools and learning centers in gaining access to improved educational resources, and by assisting rural hospitals and health care centers in gaining access to improved medical care. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically underserved areas, by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Distance Learning projects provide funding for computers and internet hookups in schools and libraries and promote confidence in, and understanding of the world-wide-web and its benefits to students and young entrepreneurs.

Key Performance Indicator(s)

Distance Learning and Telemedicine	FY 2009 Target	FY 2009 Actual
Number of schools receiving distance learning facilities	665	1,198
Number of healthcare providers receiving telemedicine facilities	500	576

All key performance indicator targets were met.

The Farm Bill Broadband Program

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) established a new loan and loan guarantee program "Access to Broadband Telecommunications Services in Rural Areas." This program was modified and reauthorized under the 2008 Farm Bill. This program is designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less. Program funds are provided through a variety of direct and guaranteed loans.

The building and delivery of advanced telecommunications networks are having a profound effect on our Nation's economy, its strength, and its growth. Broadband networks in small rural towns will facilitate economic growth and provide the backbone for the delivery of increased educational opportunities over state-of-the-art telecommunications networks. Just as our citizens in our cities and suburbs benefit from access to broadband services, so should our rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources. Broadband is a tool that allows people, communities, and organizations to consider new and different ways to interact, manage their lives, and do business.

Key Performance Indicator(s)

Farm Bill Broadband	FY 2009 Target	FY 2009 Actual
The number of borrowers' subscribers receiving new or improved telecommunication services (Broadband)	190,000	11,983
Percentage growth of borrowers' subscribers receiving new or improved telecommunication services (Broadband)	15.14%	-98%

The key performance indicator targets were not met. The 2008 Farm Bill required modifications to the Broadband Loan Program, and applications were being held pending departmental approval of the revised program regulations.

The ARRA Broadband Program

The ARRA authorized a total of $2.5 billion in budget authority for loans and grants for broadband deployment geared toward facilitating economic development in rural areas. The program supports the expansion of broadband service in rural areas through financing and grants to projects that provide access to high speed service to facilitate economic development in locations without sufficient access to such service.

The program created under ARRA was a new program, created jointly with the National Telecommunications Information Administration (NTIA) in the Department of Commerce. This program necessitated creation of new processes and requirements, as well as developing definitions for broadband, unserved, underserved and other items. Public input was solicited through a Request for Information published jointly by Rural Development and NTIA. Public meetings were held to gather information and comments. A joint Notice of Funds Availability (NOFA) was published on July 9, 2009. The application window was closed on August 20, 2009. The NOFA stated that awards would be made no earlier than November 7, 2009. Thus it was envisioned from the beginning that no obligations would be made in FY 2009.

Water and Environmental Program

Safe drinking water and sanitary waste disposal systems are vital not only to public health, but also to the economic vitality of rural America. Rural communities across the country are facing the challenges of aging infrastructure, increased yet unfunded environmental mandates, contaminated or diminished water sources, and increased construction costs. As these communities seek to provide safe, reasonably priced water and wastewater services to their residents, access to affordable financing is critical.

Water and Environmental Program (WEP) loans and grants are provided to rural communities for the development, replacement, or upgrading of water and environmental facilities. Direct loans are repayable up to 40 years. One of the objectives of the WEP program is to provide rural residents with modern and affordable water and waste disposal services. Another objective is to direct program resources to those rural communities with the greatest need. This includes rural communities that are poverty-stricken as a result of out-migration, natural disasters or economic stress.

Key Performance Indicator(s)

Water and Environmental	FY 2009 Target	FY 2009 Actual
Number of borrowers/subscribers receiving new or improved service from agency funded water facility	1,418,000	4,820,600* 3,388,089

*ARRA customers receiving new and improved water & waste facilities.

In FY 2009, WEP invested $2.50 billion[2] in direct and guaranteed loans and grants to provide technical assistance to rural communities and help them develop water and waste disposal facilities.

Rural Development anticipated serving 354,500 program borrowers' customers (subscribers) quarterly and 1,418,000 on an annual basis. The goal for FY 2009 was met by serving 3,388,089 program borrowers' customers (subscribers). The ARRA goal for customers was 2.6 million, which was exceeded with 4,820,600 customers receiving new or improved facilities. Several contributing factors are listed below:

[2] Includes $1,581,547,982 in ARRA funds. Regular program funding is $920,721,754.

- Rural Development monitors its output and outcome measurements to evaluate its program delivery and services to its customers. Rural Development establishes national and state goals and has exceeded the annual targets used to measure the loan to grant mix and referrals to commercial credit. Rural Development State offices continually coordinate their strategies to strengthen relationships with partner agencies and organizations by leveraging funds for project development. The results demonstrate that Rural Development is able to target funds to more communities and projects where the financial investments result in a greater number of borrowers' customers being served.

- Rural Development has offered more training to the National and State office staffs to sharpen skills in using underwriting tools. Our performance continues to improve in determining those communities that can afford maximum debt capacity. The result is that the WEP programs reach more communities needing Federal assistance.

- Rural Development uses a "use or lose" policy for funding, which spurs rapid obligation activity over the third and fourth quarters.

- The ARRA provided $1.58 billion in loans and grants for water and waste disposal projects. The Water Programs benefitted from the publicity and marketing of the ARRA funding. Communities sought more Rural Development funding and technical assistance for projects or increased their efforts to have projects advance beyond the development stages.

- Rural communities must increase investment in water and wastewater facilities to upgrade aging facilities, meet new quality standards and increase the security of their operations.

- The trend for many water and sewer systems, especially drinking water, is to develop more regional projects that would serve a larger customer base.

Future Opportunities and Challenges

Rural Development is impacted by changes occurring in society and the local, national, and world economies. New authorities have been granted to Rural Development as a result of the Food, Conservation, and Energy Act of 2008 (The Farm Bill) and ARRA to address changes in agriculture and the rural economy and create a broader range of economic opportunities for farmers and rural businesses.

In addition, Rural Development is continually evaluating its business practices to ensure they are efficient and effective, resulting in new technologies, initiatives, systems, and policies.

Technology

Rural Development continues to pursue the deployment of information technology enhancements that significantly improve upon automated financial system capabilities of the Agency. Providing access directly to the public continues to be expanded as exemplified by the implementation of web-enabled Broadband loan and grant application submission capabilities implemented in response to ARRA legislation. This was collaboratively accomplished with the Department of Commerce. In addition, guaranteed lenders can now submit guaranteed housing applications through a web-enabled interface that allows the transfer of application data from lender-based systems directly into Rural Development guaranteed loan application underwriting processes. These processes are supported by an automated “decision engine” that provides standard, uniform application rules-based approval criteria that ensure consistency in the approving of loan applications across the Agency. More applications are being web-enabled and offered directly to the public.

Rural Development’s Multi-Family Housing (MFH) project payment information can now be submitted and approved via the internet and electronically interfaced with the automated accounting system to produce financial reporting. New processes have been developed to balance all MFH payments received via a wholesale lock box and entered into the MFH systems by the Centralized Servicing Center (CSC). MFH automated rental assistance forecasting tools have been developed, and put into use and will continue to be enhanced. Automating the interface with Pay.Gov while collecting MFH payments electronically and the ability to seamlessly transmit these payments to the automated accounting system continues to offer both opportunities and challenges to the introduction of new state-of-the-art technologies in support of this line of business.

Rural Development employs state-of-the-art technologies in supporting a modern centralized mortgage servicing center that include telephony capabilities such as predictive dialing, automated call handling, automated voice response, and customer initiated payments; scanning, imaging, and workflow management; and automated mail processing. The Agency is leveraging these technologies to improve program delivery capabilities for all Rural Development loan programs and is extending these capabilities to other USDA agencies.

The challenge of retiring and/or upgrading legacy systems and applications and replacing them with new modern technologies continues to be pursued. Aging mainframe systems and applications, although extremely secure, are costly to maintain and operate and impact the agility and responsiveness required for Agency business needs. More modern, state-of-the-art systems are needed to support e-Government goals and objectives, reduce costs, and create a more agile, responsive information technology platform. To meet this challenge, Rural Development is embarking on an initiative to modernize its systems and applications under the title of the Comprehensive Loan Program. An independent contractor is assessing current “As Is” systems, identifying high level business requirements, and creating a “Roadmap” to the implementation of a new modern, robust technical platform. This new platform will enable the Agency to more effectively and efficiently deliver its programs to the public.

Transforming Workforce

Human Resources (HR) has a plan for addressing staffing issues that may arise since the retirement of Baby-Boomers affects all of USDA. Historically, Rural Development has experienced very few problems in recruiting high-quality applicants.

In 2008, the Office of Personnel Management (OPM) released a study predicting Federal retirements based on 2006 employment numbers. More than half of all Federal employees who were eligible to retire in 2006 will retire by 2016. Current estimates indicate that approximately 40 percent of staff is now eligible to retire. The Senior Executive Service (SES) numbers indicate 65 percent as being retirement eligible.

If retirements keep pace with expectations, there are going to be many opportunities for current and new staff in the very near future. To address this change, established recruitment and retention strategies are in place to recruit and retain a high quality workforce. Additionally, Human Resources will continue to plan and develop strategies to counter not only the retirement of the many people who serve rural America but also the loss of the knowledge, skills, and abilities attributed to these employees.

Entity's Systems, Controls, and Legal Compliance

The purpose of the Federal Managers' Financial Integrity Act (FMFIA) is to promote the development of systematic and proactive measures to ensure management accountability for the effectiveness and efficiency of program operations.

Section 2

Section 2 of the law focuses on the assessment of the adequacy of management controls to manage the risk associated with a given program and to provide reasonable assurance that obligations/costs comply with applicable laws and regulations; that Federal assets are safeguarded against fraud, waste and mismanagement; and that transactions are properly recorded and accounted for.

A material weakness identifies an instance in which the management controls are not sufficient to provide the level of assurance required by Section 2 and requires major milestones for corrective action. Such a weakness may significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements, significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

In FY 2009, a new material weakness and a significant deficiency were identified related of Office of Inspector General (OIG) Audit No. 85401-17-FM. A material weakness was identified regarding the controls over the assumption curves in the cash flow models used to perform the annual reestimate calculations. A significant deficiency was identified related to not timely deobligating unliquidated obligations in the Rural Telecommunications Program. One existing FY 2008 credit reform significant deficiency remains open for the OIG Audit No. 85401-15-FM. On August 7, 2009, corrective action documentation for Milestone Numbers 2a-e was submitted to the Office of Chief Financial Officer (OCFO). On August 14, 2009, the corrective action documentation for Milestone Number 1 was submitted to OCFO.

Section 4

Section 4 of the law relates to the review of financial accounting systems to ensure conformance with certain principles, standards, and other Federal requirements. A financial system nonconformance is an instance in which the financial system does not conform to the requirements of Section 4. A nonconformance also requires major milestones for corrective action.

Rural Development provides reasonable assurance that internal controls over financial reporting are operating effectively.

For FY 2009, no new material weaknesses or significant deficiencies were identified. The FY 2007 Information Technology aggregate material weakness that was re-determined as a control deficiency in FY 2008 was closed on March 3, 2009.

Rural Development's Rural Utilities Legacy system does not fully conform to Information Technology (IT) general and application controls. This issue was identified in an issue paper related to OIG Audit No. 85401-17-FM in FY 2009. The recommendation was to accelerate the conversion from the Legacy system to the compliant Rural Utilities Loan Servicing System (RULSS) and report this recommendation in the appropriate Departmental documents.

Rural Development has fulfilled the requirements for documenting and testing of internal controls as directed by OMB Circular No. A-123, Management Accountability and Control.

Improper Payments Information Act of 2002 (IPIA)

The IPIA requires that the head of each agency annually review all programs and activities the agency administers to identify those that may be susceptible to significant improper payments. For each program or activity identified, the agency is required to estimate the annual amount of improper payments and, if the estimate is over $10 million, report the estimate to Congress along with the actions the agency is taking to reduce those improper payments.

Rural Development responded that all of its applicable programs had been assessed and reported that the mission area had only one program, Section 521 Rental Assistance, identified as potentially being susceptible to significant improper payments and meeting the requirements for a statistically valid estimate of improper payments.

	Reported in FY 2007	Reported in FY 2008	Reported in FY 2009
Outlays	$854.5 million	$886.9 million	$887.0 million
Improper Payment Rate %	3.07%	3.95%	2.06%
Improper Payments($)	$26.3 million	$35.0 million	$18.3 million
Year of data sampled	FY 2006*	FY 2007	FY 2008

*FY 2006 results were based on partial samples of the current fiscal year (FY). Starting with FY 2007 reporting, the statistical sample was based on the entire prior fiscal year. This resulted in the FY 2007 results being based on FY 2006 outlays.

The future target rates for improvement are:

Future Targets for Improvement	FY 2010	FY 2011	FY 2012
Estimated Outlays*	$960.6 M	$999.0 M	$1,029.6 M
Improper Payment Rate	3.5%	3.4%	3.3%

*Based on anticipated increase of 4 percent per year

Rural Development's Rental Assistance Program IPIA audit reviews Rental Assistance payment supporting documentation prepared by Section 515 and Section 514 loan program borrowers and property managers of multifamily housing properties financed by Rural Development. This audit does not review work done by agency personnel; it reviews the documentation prepared to substantiate subsidy payments requested by borrowers.

The Rental Assistance program is very similar to the Section 8 housing subsidy program operated by the U.S. Department of Housing and Urban Development (HUD). The agency reviewed the sampling plan developed by HUD for its IPIA studies. It engaged Rural Development statisticians to prepare a similar plan for this report. This report is based on a review of tenants receiving rental assistance (RA) during FY 2008. The sampling plan consisted of 666 RA payments from a universe of 3,373,862 or .019 percent. The methodology produced a sample with a 99-percent confidence level. This year like last year, the agency used the Audit Unit staff from the Centralized Servicing Center (CSC) to undertake the study, rather than agency field staff used for reports prior to FY 2008. The study required CSC to evaluate tenant files and income calculations. The agency did not test if the Office of The Deputy Chief Financial Officer paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and the implementation of an automation enhancement to improve data entry.

The universe of RA payments made during FY 2008 was 3,373,862. The only parameter used to determine the eligible universe was the RA payment. No other data element, such as location, size of property, number of units or availability of other rental assistance (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS). The extract contained a list of all tenants receiving RA during FY 2008. The data included month of payment, project name, project identifier (case number/project number) and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. Once the sample was identified, a memo was sent to the borrowers/management agents that explained the process (including detailed instructions), provided the list of tenant payments to be reviewed and provided a list of documents that needed to be provided to CSC for their review. The data received from the borrower/management agent was used to compare with agency records. The study required CSC to complete the survey for the selected tenant payments. There was to be no substitution of the selected payment and, if the management agent was unable to submit the file, the payment would be considered improper.

The IPIA survey results for this year are lower than prior years. This can be attributed to the aggressive implementation of MFH's corrective action plan and a concerted effort of focused training by both agency and the industry groups.

Other corrective action items include:

- State Offices, with errors identified from this FY's report must develop a corrective action plan. The plan will need to include procedures to train field staff, borrowers and property managers in completing appropriate required documentation and following up with tenants and income-verifiers.
- Establishment of a working group with the property management business partners and the Agency to continue providing educational opportunities for the industry regarding the importance of the IPIA process and the types of errors that were identified.
- Implementation of a new management agent performance assessment review that will reduce management fees paid to noncompliant management agents. If performance decreases, there will be a concurrent decrease in the base management fee allowed for that year. Errors made on tenant certifications will be one of six criteria used for determining reduction in management fees paid.
- The National Office will continue to pursue access to the Health and Human Services (HHS) New Hires data and Housing and Urban Development's (HUD) Enterprise Income Verification (EIV) System to be shared with State Offices.

The Agency is able to recover improper payments. In most cases, the Agency will seek repayment of all unauthorized assistance received by a borrower or tenant, plus the cost of collection, to the fullest extent permitted by law.

Recovery of Improper Payments	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
	Actual	Actual*	Target	Target	Target
Dollars Recovered ($)	$755,000	$770,100	$786,000	$801,000	$817,000

*Based on approximately a 2 percent annual increase.

Improper payment recovery process:

- The Agency's established threshold for determining unauthorized payment amount is $100. The agency efforts to collect unauthorized payments may include offsets, the use of private or public collection agents, and any other remedies available. Agency findings related to unauthorized payment determinations will be referred to credit reporting bureaus and other federal, state, or local agencies with jurisdictions related to the unauthorized assistance findings for suspension, debarment, civil or criminal action to the fullest extent permitted by law.
- If a borrower or tenant agrees to repay unauthorized assistance, the amount due will be the amount stated in the unauthorized assistance determination notice unless another amount has been approved by the Agency.
- Repayment may be made either with a lump sum payment or through payments made over a period of time. If a borrower or tenant agrees to repay unauthorized assistance, the borrower or tenant proposed repayment schedule must be approved by the Agency prior to implementation. Agency approval of a repayment schedule will take into consideration the best interest of the borrower, the tenant, and the Federal Government.
- Borrowers must retain copies of all correspondence and a record of all conversations between the borrower and a tenant regarding unauthorized assistance received by a tenant.

Variance Allowances

In accordance with Office of Management and Budget (OMB) circular A-136, Financial Reporting Requirements, Rural Development is required to prepare annual analysis of variances in the quarterly financial statements. The variances shown are significant as defined by USDA as those greater than 10 percent and $100 million for consolidated statements, and greater than 25 percent and $25 million for components.

Included in this information will be management explanations of significant variances in assets, liabilities, costs, revenues, obligations, and outlays.

Rural Development is reporting a significant increase in its Fund Balance with Treasury reflected in the fiscal year 2009 Consolidated Balance Sheet. The variance is mostly attributed to an increase in cash received as a result of ARRA. The two largest direct programs receiving funding under the act were the Water and Environmental Program receiving $1.38 billion, and the Distance Learning, Telemedicine, and Broadband Program receiving $2.5 billion.

Net Position also showed a significant increase in fiscal year 2009 as a result of new appropriations being reported. Through ARRA, Rural Development received $4.4 billion of additional appropriations.

Also related to ARRA, increases were in Obligations Incurred for Direct Programs as reported on the Statement of Budgetary Resources. The most significant increase was related to Water and Environmental direct loans and grants.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2009 AND 2008
(In Millions)

	2009	2008
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 14,755	$ 8,717
Accounts Receivable, Net (Note 5)	1	0
Other (Note 8)	1	1
Total Intragovernmental	14,757	8,718
Cash and Other Monetary Assets (Note 4)	0	125
Accounts Receivable, Net (Note 5)	1	1
Loans Receivable and Related Foreclosed Property, Net (Note 6)	73,531	69,733
General Property, Plant and Equipment, Net (Note 7)	53	62
Other (Note 8)	37	37
Total Assets	**88,379**	**78,676**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	5	5
Debt (Note 10)	71,721	66,423
Resources Payable to Treasury (Note 1M)	6,034	6,043
Downward Reestimates Payable to Treasury General Fund (Note 1N)	511	1,012
Other (Note 11)	18	15
Total Intragovernmental	78,289	73,498
Accounts Payable	16	16
Loan Guarantee Liability (Note 6)	1,454	1,057
Federal Employee and Veteran Benefits (Note 9)	32	31
Other (Note 11)	139	270
Total Liabilities	**79,930**	**74,872**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	8,586	4,535
Cumulative Results of Operations	(137)	(731)
Total Net Position	**8,449**	**3,804**
Total Liabilities and Net Position	**$ 88,379**	**$ 78,676**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Millions)

	2009	2008
Strategic Goal:		
Improve the Economic Opportunities and Quality of Life in Rural Areas		
Program Costs (Note 13):		
Intragovernmental Gross Costs	$	$
Borrowing Interest Expense	3,606	3,514
Other	463	344
Total Intragovernmental Gross Costs	4,069	3,858
Less: Intragovernmental Earned Revenue (Note 14)	471	360
Intragovernmental Net Costs	**3,598**	**3,498**
Gross Costs with the Public:		
Grants	1,779	1,795
Loan Cost Subsidies	924	1,322
Other	2	1,241
Total Gross Costs with the Public	2,705	4,358
Less: Earned Revenues from the Public (Note 14)	3,319	4,183
Net Costs with the Public	**(614)**	**175**
Net Cost Of Operations	**$ 2,984**	**$ 3,673**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Millions)

Cumulative Results of Operations	**2009**	**2008**
Beginning Balances:	$ (731)	$ (65)
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**(731)**	**(65)**
Budgetary Financing Sources:		
Appropriations Used	4,463	3,125
Transfers-In/Out Without Reimbursement	(514)	(244)
Other Financing Sources:		
Transfers In/Out Without Reimbursement	0	0
Imputed Financing	253	126
Other	(624)	0
Total Financing Sources	**3,578**	**3,007**
Net Cost of Operations	(2,984)	(3,673)
Net Change	594	(666)
Total Cumulative Results of Operations	**$ (137)**	**$ (731)**

Unexpended Appropriations		
Beginning Balances:	$ 4,535	$ 4,788
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**4,535**	**4,788**
Budgetary Financing Sources:		
Appropriations Received	8,545	2,867
Appropriations Transferred In/Out	(1)	(2)
Other Adjustments	(30)	7
Appropriations Used	(4,463)	(3,125)
Total Budgetary Financing Sources	**4,051**	**(253)**
Total Unexpended Appropriations	**8,586**	**4,535**
Net Position	**$ 8,449**	**$ 3,804**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Millions)

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accts.	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accts.
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 1,827	$ 1,929	$ 1,183	$ 1,247
Recoveries of Prior Year Unpaid Obligations	153	672	171	1,119
Budget Authority				
Appropriation	8,846	0	3,669	0
Borrowing Authority (Notes 16 & 17)	0	11,629	0	12,711
Spending Authority from Offsetting Collections:				
Earned				
Collected	3,846	7,315	4,374	6,107
Change in Receivables from Federal Sources	4	0	(21)	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	215	0	48
Nonexpenditure Transfers, Net, Anticipated & Actual	204	0	119	0
Permanently Not Available	(2,636)	(3,498)	(3,456)	(4,237)
Total Budgetary Resources	**$ 12,244**	**$ 18,262**	**$ 6,039**	**$ 16,995**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 5,781	$ 16,269	$ 3,700	$ 15,066
Reimbursable	555	0	512	0
Unobligated Balance:				
Apportioned	4,423	1,334	1,234	1,057
Unobligated Balance Not Available	1,485	659	593	872
Total Status of Budgetary Resources	**$ 12,244**	**$ 18,262**	**$ 6,039**	**$ 16,995**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 4,923	$ 21,046	$ 5,410	$ 18,369
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(8)	(688)	(29)	(641)
Total Unpaid Obligated Balance, Net	**4,915**	**20,358**	**5,381**	**17,728**
Obligations Incurred, Net	6,336	16,269	4,212	15,066
Gross Outlays	(5,579)	(12,903)	(4,528)	(11,269)
Recoveries of Prior Year Unpaid Obligations	(153)	(672)	(171)	(1,119)
Change in Uncollected Customer Payments from Federal Sources	(4)	(215)	21	(48)
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	5,527	23,741	4,923	21,046
Uncollected Customer Payments from Federal Sources	(12)	(904)	(8)	(688)
Total Unpaid Obligated Balance, Net, End of Period	**$ 5,515**	**$ 22,837**	**$ 4,915**	**$ 20,358**
Net Outlays				
Gross Outlays	$ 5,579	$ 12,903	$ 4,528	$ 11,269
Offsetting Collections	(3,846)	(7,315)	(4,374)	(6,107)
Distributed Offsetting Receipts	(1,309)	0	(493)	0
Total Net Outlays	**$ 424**	**$ 5,588**	**$ (339)**	**$ 5,162**

See required supplementary information at the end of these footnotes for a breakdown by major budget account.

The accompanying notes are an integral part of these statements.

RURAL DEVELOPMENT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the United States Department of Agriculture (USDA) Rural Development mission area. The financial statements have been prepared from the books and records in accordance with the Office of Management and Budget (OMB) *Circular A-136, Financial Reporting Requirements.*

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. In Fiscal Year (FY) 2009, we began using the Treasury General Fund Receipt Account Guide (GFR) for Rural Development downward subsidy reestimates. We are reporting these amounts on the Balance Sheet line item as Downward Reestimates Payable to Treasury General Fund. In FY 2008, the amounts were reported as Intragovernmental Other Liabilities. In addition, FY 2008 amounts related to apportionment categories of obligations incurred were reclassified from Category B to Category A based on additional SF132 analysis performed in FY 2009 by USDA Office of the Chief Financial Officer **(Note 15)**.

B. Reporting Entity

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354, was signed into law and permitted the reorganization of the Department of Agriculture. This law reaffirmed Rural Development's statutory authority. The mission area provides funding for rural housing programs, rural utilities programs, and rural business programs within the USDA.

C. Basis of Accounting

The accounting principles and standards applied in preparing the financial statements are in accordance with guidance from the Federal Accounting Standards Advisory Board (FASAB), the Director of OMB and Comptroller

General, which constitute generally accepted accounting principles for the Federal Government and its component entities. Guidelines from the Federal Credit Reform Act of 1990 (Credit Reform) contained in the Omnibus Budget Reconciliation Act of 1990 are also applied.

For FY 2009, Rural Development implemented accounting and reporting requirements as outlined in the Treasury GFR Account Guide, which illustrates the accounting and reporting requirements for Non-Custodial Statement collections applicable to collections of Downward Reestimates of Subsidy Expense, as it relates to Treasury GFR Accounts.

Pre-Credit Reform and Post-Credit Reform nonfederal transactions are recorded on a cash accounting basis, except for the accrual of interest related to borrower loans. Federal transactions are recorded on an accrual accounting basis. Under the cash method, revenues are recognized when cash is received and expenses are recognized when they are paid. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of federal funds.

All significant interfund and intrafund balances and transactions have been eliminated in the consolidation except for those Credit Reform transactions impacting the Statement of Budgetary Resources and Reconciliations of Net Cost of Operations to Budget **(Note 24)**.

During FY 2009, Statement of Federal Financial Accounting Standards (SFFAS) No. 31 – Accounting for Fiduciary Activity was implemented. SFFAS No. 31 requires federal entities to distinguish the information relating to fiduciary activities in which non-federal individuals or entities have ownership interest that the Federal Government must uphold **(Note 25)**. Rural Development is not required to restate the prior period amounts presented in the financial statements in the initial year of implementation. Therefore, FY 2008 financial statements have not been restated.

Fiduciary assets are not assets of Rural Development and are not recognized on the Balance Sheet. See **Note 25**, Fiduciary Activities.

D. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

E. Revenue and Other Financing Sources

Revolving/Credit Funds:
Beginning in FY 1992, the Federal Credit Reform Act of 1990 contained in the Omnibus Budget Reconciliation Act of 1990, provided Credit Reform procedures which affected the financing of the revolving funds. Under Credit Reform, an appropriation is received in the year the loan is made in a sufficient amount to cover the subsidy cost of providing the loan. The subsidy cost is defined as the net present value, at the time of disbursement, of the difference between the Government's estimated cash disbursements for that loan and the Government's estimated cash inflows resulting from that loan (e.g., repayments of principal and interest, and other payments adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries). Consequently, the implementation of Credit Reform has resulted in authorized appropriations which provide for estimated future losses, as opposed to appropriations which provided for reimbursement of past losses actually sustained prior to FY 1992. In addition to subsidy appropriations, the other sources of funding for the revolving funds include borrowings from the United States Treasury (Treasury) and borrower loan repayments.

General Funds:
Appropriations are provided by Congress on both an annual and multi-year basis to fund certain general funds and other expenses such as personnel, compensation, fringe benefits, rents, communications, utilities, other administrative expenses, and capital expenditures. The current budgetary process does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources as paid; however, for financial reporting purposes under accrual accounting, operating expenses are recognized in the current reporting period. Expenditures for capital and other long-term assets are capitalized and are not recognized as expenses until they are consumed during normal operations. Appropriations for general fund activities are recorded as a financing source when expended. Unexpended appropriations are recorded as Net Position.

F. Fund Balance with Treasury

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

G. Lending Activities

Direct loans are made by appropriated authority. These loans represent actual cash disbursements to borrowers which require repayment.

Other lending activities include the guarantee of loans for single family housing, multi-family housing, and community programs. The term “guarantee” means “to guarantee the repayment of loans to eligible borrowers originated, held, and serviced by a private financial agency or other lender approved by the Secretary of Agriculture.”

Some guaranteed loans may be sold in the secondary market by the lender to an institution referred to as a holder. If the holder does not receive payment, Rural Development may purchase the loan. These loans are reported as direct loans by Rural Development.

H. Loans Receivable and Related Foreclosed Property, Net

Loans are accounted for as receivables after funds have been disbursed. They are carried at their principal amount outstanding **(Note 6**), and accrue interest based on the contractual interest rate. When a loan becomes nonperforming (in excess of 90 days delinquent or when borrowers enter into troubled debt restructuring arrangements), all interest previously accrued on the loan is reversed for financial reporting purposes, and interest income on the nonperforming loan is then recognized only to the extent of the collections received. Nonperforming loans are reclassified as performing and accrue interest when they become current or less than 90 days delinquent. In addition, interest income recognition subsequent to troubled debt restructuring arrangements is generally limited to actual cash interest received from these borrowers.

In an effort to more accurately portray the actual value of assets, Rural Development has adopted the USDA policy of writing off, for financial reporting purposes, all loans that are two years or more delinquent.

Present value and Credit Reform prescribed methodology is used to value the remaining interest and principal portfolio. **Note 6** provides additional information on the methods used for the direct and guaranteed loans.

I. Property, Plant and Equipment

The land, buildings, and equipment in the current operating environment are provided by the General Services Administration, who charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties. Under Credit Reform, all equipment purchases are made through the Salaries and Expense Fund.

Costs of internal use software are accounted for in accordance with SFFAS No. 10, Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of the cost of internal use software whether it is commercial off-the-shelf, contractor-developed, or internally-developed which solely meets internal or operational needs.

Internal use software is classified as General Property, Plant and Equipment as defined in SFFAS No. 6, Accounting for Property, Plant and Equipment. See **Note 7** for further information.

The threshold for equipment is $25,000 and internal use software is $100,000.

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources. There is no certainty that appropriations will be enacted. Also, liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

K. Borrowings/Interest Payable to Treasury

Borrowings payable to Treasury result from the Secretary of Agriculture's authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations. These funds make periodic principal and interest payments to Treasury in accordance with established agreements.

L. Pension and Other Employee Benefits

Pension and other retirement benefits (primarily health care benefits) expense is recognized at the time employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

M. Resources Payable to Treasury

Rural Development's resources payable to Treasury represent the Pre-Credit Reform funds assets that are in excess of the funds liabilities. After liquidating all the liabilities of these Pre-Credit Reform funds, the funds are then returned to Treasury.

N. Downward Reestimates Payable to Treasury General Fund

During FY 2009, Rural Development implemented the Treasury GFR Account Guide, most notably the section which illustrates the accounting and reporting requirements for Non-Custodial Statement collections applicable to collections of downward reestimates of subsidy expense, as it relates to Treasury GFR

Accounts. As direct and/or guaranteed loan financing accounts collect more subsidy than is necessary to fund future net cash outflows, the applicable financing account must transfer the excess subsidy, with interest, to a designated Treasury GFR Account pursuant to the Federal Credit Reform Act of 1990. The Treasury GFR Account Guide stipulates that credit agencies are to include the Standard General Ledger entries of the Treasury GFR Accounts, as related to downward reestimates of subsidy expense, in their respective trial balances and financial statements as non-entity. Non-entity refers to the fact that any applicable resources are "NOT FOR USE" by Rural Development. As a result of implementing the requirements of this guide during FY 2009, a Liability for Non-Entity Assets was accrued for downward reestimates of subsidy expense which will normally be paid to the applicable Treasury GFR Account during the subsequent fiscal year. This liability is reported on the Balance Sheet under the line titled, Downward Reestimates Payable to Treasury General Fund. As this was a new Balance Sheet line item in FY 2009, downward subsidy costs recorded in FY 2008 have been reclassified from their prior presentation **(Note 1A).**

O. Contingencies

The Rural Development mission area is a party in various legal actions and claims through the normal course of its operations. In the opinion of management and the USDA Office of the General Counsel, the ultimate resolution of these legal actions and claims will not materially affect the financial position or results of operations **(Note 12)**.

P. Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, the obligated amount is recorded as an undelivered order **(Note 21)**. Undelivered orders are reduced by either an expenditure or an obligation cancellation. Appropriated funds which are not obligated are treated as unobligated amounts. At the end of the fiscal year, certain multi-year appropriations which have unobligated balances remain available for obligation in future periods. Unobligated appropriations are returned to Treasury when their period of availability expires.

Q. Intragovernmental Financial Activities

The Rural Development mission area is an integral part of the operations of the USDA and may thus be subject to financial and managerial decisions and legislative requirements which are beyond the control of the Agency's management. Consequently, day-to-day operations may not be conducted as they would if Rural Development were a separate and independent entity.

The USDA has provided mission areas with an allocation of departmental nonreimbursed appropriated costs to include in their financial statements. These costs affect the Statement of Net Cost and Statement of Changes in Net Position.

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

R. Allocation Transfers

Rural Development is a party to allocation transfers with other federal agencies as both a transferring entity and a receiving entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account is created in the U.S. Treasury as a subset for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Rural Development allocates funds, as the parent, to the Small Business Administration and Department of Housing and Urban Development. Rural Development receives allocation transfers, as the child, from the Economic Development Administration, Appalachian Regional Commission, and Delta Regional Authority.

S. American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act (ARRA) of 2009, Public Law 111-5, was implemented in FY 2009 and signed into law February 17, 2009. Unprecedented levels of transparency and accountability are required under this act. Rural Development has structured loans and grants to result in meaningful and measureable outcomes that are consistent with our agency plans and that promote the goals of ARRA. The programs receiving funding were Distance Learning, Telemedicine/Broadband, Rural Housing Insurance Fund, Rural Community Facilities, Rural Business and Industries, and Rural Water and Environmental. This funding is available for loan and grant obligations FY 2009 through FY 2010.

NOTE 2: NON-ENTITY ASSETS

Amounts are presented in millions.

	FY 2009		FY 2008	
With the Public				
Cash and Other Monetary Assets:	$	0	$	125
Intragovernmental				
Fund Balance with Treasury		31		0
Total Non-Entity Assets	$	31	$	125
Total Entity Assets	$	88,348	$	78,551
Total Assets	**$**	**88,379**	**$**	**78,676**

Non-Entity Assets represent assets that are “NOT FOR USE” by Rural Development. The amount reported in the FY 2008 column is the amount of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2008 **(Note 4)**. Beginning in FY 2009, fiduciary activities in which non-federal individuals have ownership are being reported in a separate footnote **(Note 1C and 25)**. For FY 2009, the amounts reported as Intragovernmental are comprised of federal funds related to the operation of the Escrow Account being reported as non-entity fund balance with Treasury.

NOTE 3: FUND BALANCE WITH TREASURY

Amounts are presented in millions.

	FY 2009	FY 2008
Fund Balances:		
Revolving Funds	$ 5,235	**$** 3,586
General Funds	9,520	5,131
Other Fund Types	0	0
Total	**$ 14,755**	$ **8,717**
Status of Fund Balance with Treasury: (FBWT)		
Unobligated Balance:		
Available	$ 5,757	**$** 2,291
Unavailable	2,144	1,464
Obligated Balance Not Yet Disbursed	28,352	25,275
Borrowing Authority Not Yet Converted to Fund Balance	(21,336)	(20,079)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(193)	(234)
Non-Budgetary Fund Balance with Treasury	31	0
Total	**$ 14,755**	$ **8,717**

Fund balance with Treasury represents the undisbursed account balances with Treasury as reported in the mission area's records.

Included in the Unavailable line are restricted funds which are limited in their future use and are not apportioned for current use. These amounts represent the expired authority in fixed-year grant and program accounts (fixed years prior to FY 2009) and are only available for restoration of funds. After the fifth year of expiration, all funds are returned to Treasury as required except those entities having extended authority. For FY's 2009 and 2008, there were approximately $57 million and $62 million in expired funds, respectively.

Total unobligated balances and obligated balances not yet disbursed do not agree with the corresponding fund balance with Treasury amounts presented above, because Rural Development borrows funds from Treasury at the time certain obligations are disbursed. Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded at fiscal yearend, which will be funded by future borrowings.

NOTE 4: CASH AND OTHER MONETARY ASSETS

Amounts are presented in millions.

	FY 2009		FY 2008
Cash	$ 0		$ 125
Total Cash and Other Monetary Assets	**$ 0**		**$ 125**

In FY 2008, cash was comprised of Rural Housing Escrow Funds on deposit with U.S. Bank. In FY 2009, SFFAS No. 31 was implemented and reported escrow funds where non-federal individuals have ownership interest in **Note 25**. A portion of the escrow funds that are classified as federal funds, are being reported as a non-entity fund balance with Treasury in **Notes 2 and 3**.

NOTE 5: ACCOUNTS RECEIVABLE (A/R), NET

Amounts are presented in millions.

	FY 2009				
	Accounts Receivable, Gross		**Allowance for Uncollectible Accounts**		**Accounts Receivable, Net**
Intragovernmental					
A/R Revenue, Refund, Reimbursements	$ 1		$ 0		$ 1
Total Intragovernmental Accounts Receivable	**$ 1**		**$ 0**		**$ 1**
With the Public					
Audit Receivable	$ 11		$ 10		$ 1
Total Accounts Receivable	**$ 12**		**$ 10**		**$ 2**

	FY 2008				
	Accounts Receivable, Gross		**Allowance for Uncollectible Accounts**		**Accounts Receivable, Net**
Intragovernmental					
A/R Revenue, Refund, Reimbursements	$ 0		$ 0		$ 0
Total Intragovernmental Accounts Receivable	**$ 0**		**$ 0**		**$ 0**
With the Public					
Audit Receivable	$ 4		$ 3		$ 1
Total Accounts Receivable	**$ 4**		**$ 3**		**$ 1**

NOTE 6: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

Balance Sheet Review

Direct loan obligations or loan guarantee commitments made post-1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990 as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at net present value for the budget. Additionally, the net present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loans or defaulted guaranteed loans receivable less the net present value of the subsidy at that time.

The net present value of loans receivable is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Direct Loans

Loans receivable and related foreclosed property, net balances at the end of FY 2009 were $74 billion compared to $70 billion at the end of FY 2008. Defaulted guaranteed programs were $152 million and $126 million at the end of FY’s 2009 and 2008, respectively. Table 1 below illustrates the overall composition of the Rural Development loan portfolio by mission area and loan program for FY 2009 and FY 2008. Direct loan obligations or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value. The provision calculation is based upon the weighted-average subsidy rate of the financing account cohorts.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications, and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance moved from $3.6 billion to $4.0 billion during FY 2009, an increase of $.4 billion. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2008 to FY 2009.

For post-1991 loans, material fluctuation in the subsidy cost allowance in relation to the portfolio for FY 2009 compared to FY 2008 was experienced by the direct telecommunications, business and industry, and the guaranteed housing loans. The telecommunication allowances increased during FY 2009 as a result of an upward reestimate. A downward reestimate for the direct Business and Industry program reduced the allowance while the portfolio experienced a minor decline. For the Defaulted Guaranteed Housing program, the allowance increased compared to FY 2008.

Direct loan subsidy expense is a component of the subsidy cost allowance. The total direct loan subsidy expense for FY 2009 is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2009 was $583 million compared to $1,241 million in FY 2008, a decrease of $658 million. The changes are predominately due to decreases in the Water and Environmental, Housing, and Electric Loan programs. Table 3 illustrates the breakdown of total subsidy expense, including reestimates, for FY's 2009 and 2008 by program.

Direct loan volume increased from $7.4 billion in FY 2008 to $7.9 billion in FY 2009. Volume distribution between programs is shown in Table 4. The electric loan disbursements accounted for the large increase in FY 2009.

Table 1

Total Credit Program Receivables and Related Foreclosed Property *(in millions)*					
FY 2009	**Loans Receivable, Gross**	**Interest Receivable**	**Foreclosed Property**	**Present Value Allowance**	**Value of Assets**
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 9,865	$ 82	$ 33	$ (4,656)	$ 5,324
Electric Loans	6,876	1	0	(1,675)	5,202
Telecommunications Loans	703	2	0	(43)	662
Rural Development *	1,344	13	0	(153)	1,204
Development Loan Funds	34	0	0	(16)	18
Other Programs	2	0	0	0	2
Pre-1992 Total	**18,824**	**98**	**33**	**(6,543)**	**12,412**
Obligated Post-1991					
Housing Loans	15,320	70	46	(2,206)	13,230
Community Facility Loans	2,981	33	0	(204)	2,810
Electric Loans	33,118	33	0	(652)	32,499
Telecommunications Loans	3,409	1	0	43	3,453
Water and Environmental Loans	9,218	94	0	(728)	8,584
Development Loan Funds	439	2	0	(161)	280
Business & Industry Funds	30	(1)	0	(10)	19
Economic Development	105	0	0	(13)	92
Post-1991 Total	**64,620**	**232**	**46**	**(3,931)**	**60,967**
Total Direct Loan Receivables	**83,444**	**330**	**79**	**(10,474)**	**73,379**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund	4	0	0	0	4
Post-1991					
Community Facilities	1	0	0	0	1
Business and Industry	127	2	0	(14)	115
Housing Loans	97	0	0	(65)	32
Total Defaulted Guaranteed Loans	**$ 229**	**$ 2**	**$ 0**	**$ (79)**	**$ 152**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 73,531**

* Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and fund.

Total Credit Program Receivables and Related Foreclosed Property *(in millions)*					
FY 2008	**Loans Receivable, Gross**	**Interest Receivable**	**Foreclosed Property**	**Present Value Allowance**	**Value of Assets**
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 10,321	$ 109	$ 33	$ (4,866)	$ 5,597
Electric Loans	8,274	6	0	(1,689)	6,591
Telecommunications Loans	893	2	0	(54)	841
Rural Development *	1,470	15	0	(173)	1,312
Development Loan Funds	38	0	0	(18)	20
Other Programs	2	0	0	0	2
Pre-1992 Total	**20,998**	**132**	**33**	**(6,800)**	**14,363**
Obligated Post-1991					
Housing Loans	14,385	71	34	(2,316)	12,174
Community Facility Loans	2,658	27	0	(71)	2,614
Electric Loans	29,216	28	0	(336)	28,908
Telecommunications Loans	3,151	2	0	187	3,340
Water and Environmental Loans	8,583	87	0	(829)	7,841
Development Loan Funds	430	2	0	(163)	269
Business & Industry Funds	35	0	0	(24)	11
Economic Development	100	0	0	(13)	87
Post-1991 Total	**58,558**	**217**	**34**	**(3,565)**	**55,244**
Total Direct Loan Receivables	**79,556**	**349**	**67**	**(10,365)**	**69,607**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund	3	0	0	0	3
Post-1991					
Community Facilities	0	0	0	0	0
Business and Industry	104	2	0	(10)	96
Housing Loans	60	0	0	(33)	27
Total Defaulted Guaranteed Loans	**$ 167**	**$ 2**	**$ 0**	**$ (43)**	**$ 126**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 69,733**

* Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and fund.

Table 2

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) ***(in millions)***			
Beginning Balance, Changes, and Ending Balance	**FY 2009**		**FY 2008**
Beginning Balance of the subsidy cost allowance	$ 3,608		$ 2,682
Add: Subsidy expense for direct loans disbursed during the year by component			
Interest rate differential costs	71		(51)
Default costs (net of recoveries)	92		79
Fees and other collections	0		(2)
Other subsidy costs	78		235
Total of the above subsidy expense components	241		261
Adjustments			
Loan modifications	(10)		4
Fees received	38		35
Loans written off	(219)		(154)
Subsidy allowance amortization	(170)		(289)
Other	170		93
Ending balance of the subsidy cost allowance before reestimates	3,658		2,632
Add or subtract subsidy reestimates by component			
Interest rate reestimates	423		817
Technical/default reestimates	(71)		159
Total of the above reestimate components	352		976
Ending balance of the subsidy cost allowance	**$ 4,010**		**$ 3,608**

Table 3

Direct Loan Subsidy by Program and Component *(in millions)*										
FY 2009	**Subsidy Expense for New Direct Loans Disbursed**					**Modifications and Reestimates**				
	Interest Differ-ential	**Defaults**	**Fees and Other Colls.**	**Other**	**Total**	**Total Modifi-cations**	**Interest Rate**	**Technical**	**Total**	**GRAND TOTAL**
Direct Loan Programs										
Housing Loans	$ 6	$ 70	$ 0	$ 88	$ 164	$ 6	$ (93)	$ 57	$ (36)	**$ 134**
Community Facility Loans	19	4	0	(2)	21	0	51	72	123	**144**
Electric Loans	(45)	13	0	(4)	(36)	(16)	600	(324)	276	**224**
Telecommunications Loans	(1)	4	0	(1)	2	0	29	120	149	**151**
Water and Environmental Loans	75	1	0	(3)	73	0	(164)	19	(145)	**(72)**
Development Loan Funds	12	0	0	0	12	0	8	(11)	(3)	**9**
Business & Industry Funds	0	0	0	0	0	0	(6)	(5)	(11)	**(11)**
Economic Development	5	0	0	0	5	0	(2)	1	(1)	**4**
Total Subsidy Expense, Direct Loans	**$ 71**	**$ 92**	**$ 0**	**$ 78**	**$ 241**	**$ (10)**	**$ 423**	**$ (71)**	**$ 352**	**$ 583**

Direct Loan Subsidy by Program and Component *(in millions)*										
FY 2008	**Subsidy Expense for New Direct Loans Disbursed**					**Modifications and Reestimates**				
	Interest Differ-ential	**Defaults**	**Fees and Other Colls.**	**Other**	**Total**	**Total Modifi-cations**	**Interest Rate**	**Technical**	**Total**	**GRAND TOTAL**
Direct Loan Programs										
Housing Loans	$ (142)	$ 65	$ (2)	$ 248	$ 169	$ 4	$ 184	$ (51)	$ 133	**$ 306**
Community Facility Loans	19	1	0	(3)	17	0	0	0	0	**17**
Electric Loans	(32)	11	0	(6)	(27)	0	335	154	489	**462**
Telecommunications Loans	(1)	1	0	0	0	0	211	(19)	192	**192**
Water and Environmental Loans	86	1	0	(4)	83	0	94	63	157	**240**
Development Loan Funds	13	0	0	0	13	0	(7)	8	1	**14**
Business & Industry Funds	0	0	0	0	0	0	0	0	0	**0**
Economic Development	6	0	0	0	6	0	0	4	4	**10**
Total Subsidy Expense, Direct Loans	**$ (51)**	**$ 79**	**$ (2)**	**$ 235**	**$ 261**	**$ 4**	**$ 817**	**$ 159**	**$ 976**	**$1,241**

Table 4

Total Amount of Direct Loans Disbursed (Post-1991) *(in millions)*			
Direct Loans	**FY 2009**	**FY 2008**	**FY 2009 Over (Under) FY 2008**
Housing Loans	$ 1,540	1,316	$ 224
Community Facility Loans	432	434	(2)
Electric Loans	4,462	4,047	415
Telecommunications Loans	565	551	14
Water and Environmental Loans	843	1,018	(175)
Development Loan Funds	28	29	(1)
Business & Industry Loans	0	0	0
Economic Development	23	26	(3)
Total Direct Loans Disbursed	**$ 7,893**	**7,421**	**$ 472**

Guaranteed Loans

Rural Development offers guaranteed loan products which are administered in coordination with conventional agricultural lenders for up to 90 percent of the principal loan amount. Guarantees for 100 percent of the principal loan are made for the electric programs. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Agency, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with the Agency. Guaranteed loans are reflected on the balance sheet in two ways: estimated losses on loan credit guarantees must be valued and carried as a liability and guaranteed loans purchased from third party holders are carried at net realizable value in loans receivable and related foreclosed property, net.

Guaranteed loans outstanding at the end of FY 2009 increased compared to the FY 2008 portfolio. At the end of FY 2009 and FY 2008, there were $39.6 billion and $26.7 billion in outstanding principal (face value) and $35 billion and $23.6 billion in outstanding principal (guaranteed), respectively. Table 5 shows the outstanding balances by loan program. The liability for loan guarantees and for guaranteed loans obligated prior to October 1, 1991, are reported at present value which is the same methodology used by the direct loan programs. The provision calculation is based upon future cash flows discounted at the average interest rate of the Treasury interest-bearing debt. The estimate is reported as an expense, and a corresponding accrual for estimated losses on loan guarantees is reported as a liability.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. For the post-1991 guarantees, current year subsidy expense and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. The liability increased in FY 2009 by $397 million compared to FY 2008. Table 6a shows the loan guarantee liability while Table 6b shows the liability reconciliation for post-1991 guarantees.

Total guaranteed loan subsidy expense for FY 2009 is a combination of subsidy expense for new guaranteed loans disbursed in the current year and the interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2009 was $341 million compared to $81 million in FY 2008, an increase of $260 million. This increase was mainly due to the guaranteed housing and guaranteed business and industry program. Table 7 illustrates the breakdown of total subsidy expense for FY 2009 and FY 2008 by loan program.

In FY 2009, any subsidy expense applicable to new guaranteed loan programs under the auspices of the Farm Bill of 2008 and ARRA was recognized at the time of loan disbursement notification. This change resulted from previous discussions with OMB. Prior to FY 2009 and for the current year existing programs, the guaranteed loan subsidy expense was recognized at the time of obligation rather than at time of loan disbursement, as required by FASAB. Previous years' analysis proved no material impact on the financial statement presentation.

Guaranteed loan volume (face value) increased from $7.3 billion in FY 2008 to $15.3 billion in FY 2009. The housing loan program experienced the largest increase. Approximately $6.48 billion of the increase was directly related to activity occurring as a result of the ARRA funding. Volume distribution between programs is shown in Table 8.

Table 5

Loan Guarantees Outstanding

(in millions)

Guaranteed Loans	Pre-1992 Outstanding Principal, Face Value	Post-1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre-1992 Outstanding Principal, Guaranteed	Post-1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
FY 2009						
Housing Loans	$ 3	$ 33,993	$ 33,996	$ 3	$ 30,593	$ 30,596
Community Facility Loans	1	789	790	1	700	701
Electric Loans	161	210	371	161	210	371
Business and Industry Loans	13	4,383	4,396	8	3,266	3,274
Water and Environmental	0	69	69	0	60	60
Other Programs	0	0	0	0	0	0
Total Guarantees Disbursed	**$ 178**	**$ 39,444**	**$ 39,622**	**$ 173**	**$ 34,829**	**$ 35,002**
FY 2008						
Housing Loans	$ 3	$ 21,823	$ 21,826	$ 3	$ 19,641	$ 19,644
Community Facility Loans	2	691	693	1	629	630
Electric Loans	174	214	388	174	214	388
Business and Industry Loans	14	3,756	3,770	10	2,833	2,843
Water and Environmental	0	68	68	0	59	59
Other Programs	0	0	0	0	0	0
Total Guarantees Disbursed	**$ 193**	**$ 26,552**	**$ 26,745**	**$ 188**	**$ 23,376**	**$ 23,564**

Table 6a

Liability for Loan Guarantees *(in millions)*						
	FY 2009			FY 2008		
	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees						
Housing Loans	$ 0	$ 1,070	$ 1,070	$ 0	$ 741	$ 741
Community Facility Loans	0	32	32	0	25	25
Electric Loans	0	0	0	0	0	0
Business and Industry Loans	1	351	352	1	290	291
Water and Environmental Loans	0	0	0	0	0	0
Other Programs	0	0	0	0	0	0
Total Liabilities for Loan Guarantees	**$ 1**	**$ 1,453**	**$ 1,454**	**$ 1**	**$ 1,056**	**$ 1,057**

Table 6b

Schedule for Reconciling Loan Guarantee Liability *(in millions)*			
Beginning Balance, Changes, and Ending Balance	**FY 2009**		**FY 2008**
Beginning Balance of the loan guarantee liability	$ 1,056		$ 947
Add: Subsidy expense for guaranteed loans disbursed during the year by component			
Interest supplement costs	8		14
Default costs (net of recoveries)	521		311
Fees and other collections	(301)		(180)
Other subsidy costs	0		0
Total of the above subsidy expense components	228		145
Adjustments:			
Loan guarantee modifications	0		0
Fees received	282		135
Interest supplements paid	(3)		(3)
Claim payments to lenders	(84)		(56)
Interest accumulation on the liability balance	38		61
Other	(177)		(109)
Ending balance of the loan guarantee liability before reestimates	1,340		1,120
Add or subtract subsidy reestimates by component:			
Interest rate reestimates	(5)		35
Technical/default reestimates	118		(99)
Total of the above reestimate components	113		(64)
Ending balance of the loan guarantee liability	**$ 1,453**		**$ 1,056**

Table 7

Guaranteed Loan Subsidy Expense by Program and Component *(in millions)*										
FY 2009	**Subsidy Expense for New Guaranteed Loans Disbursed**					**Modifications and Reestimates**				
	Interest Supplement	**Defaults**	**Fees and Other Colls.**	**Other**	**Total**	**Total Modifi-cations**	**Interest Rate**	**Technical**	**Total**	**GRAND TOTAL**
Guaranteed Loan Programs										
Housing Loans	$ 8	$ 434	$(265)	$ 0	$177	$ 0	$ (20)	$ 59	$ 39	**$ 216**
Community Facility Loans	0	10	(2)	0	8	0	4	13	17	**25**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business & Industry Loans	0	77	(34)	0	43	0	12	45	57	**100**
Water & Environmental Loans	0	0	0	0	0	0	(1)	1	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ 8**	**$ 521**	**$(301)**	**$ 0**	**$228**	**$ 0**	**$ (5)**	**$ 118**	**$113**	**$ 341**

Guaranteed Loan Subsidy Expense by Program and Component *(in millions)*										
FY 2008	**Subsidy Expense for New Guaranteed Loans Disbursed**					**Modifications and Reestimates**				
	Interest Supplement	**Defaults**	**Fees and Other Colls.**	**Other**	**Total**	**Total Modifi-cations**	**Interest Rate**	**Technical**	**Total**	**GRAND TOTAL**
Guaranteed Loan Programs										
Housing Loans	$ 14	$ 221	$(144)	$ 0	$ 91	$ 0	$ (2)	$ (10)	$(12)	**$ 79**
Community Facility Loans	0	7	(1)	0	6	0	0	0	0	**6**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business & Industry Loans	0	83	(35)	0	48	0	37	(89)	(52)	**(4)**
Water & Environmental Loans	0	0	0	0	0	0	0	0	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ 14**	**$ 311**	**$(180)**	**$ 0**	**$145**	**$ 0**	**$ 35**	**$ (99)**	**$(64)**	**$ 81**

Table 8

Guaranteed Loans Disbursed *(in millions)*								
	FY 2009				**FY 2008**			
	Principal, Face Value Disbursed		**Principal, Guaranteed Disbursed**		**Principal, Face Value Disbursed**		**Principal, Guaranteed Disbursed**	
Guaranteed Loans								
Housing Loans	$	14,020	$	12,618	$	6,356	$	5,721
Community Facility Loans		146		128		127		111
Electric Loans		0		0		0		0
Business and Industry Loans		1,112		865		781		609
Water and Environmental Loans		5		4		40		33
Total Guaranteed Loans Disbursed	**$**	**15,283**	**$**	**13,615**	**$**	**7,304**	**$**	**6,474**

Credit Program Discussion and Descriptions

Each year, Rural Development programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, Rural Development is working with state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives.

Rural housing loan and grant programs provide affordable housing and essential community facilities to rural communities. Programs also help finance new or improved housing for moderate, low, and very low-income families each year. Rural housing programs also help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

The rural business program goal is to promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

Rural utilities programs help to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. These programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

Rural Development is able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

Rural Business-Cooperative Programs

Business and Industry Direct Loans
Business and Industry Guaranteed Loans
Intermediary Relending Program Direct Loans
Rural Economic Development Direct Loans

Rural Housing Programs

Community Facilities Direct Loans
Community Facilities Guaranteed Loans
Farm Labor Housing Direct Loans
Home Improvement and Repair Direct Loans
Home Ownership Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans
Home Ownership Guaranteed Loans
Multi-family Housing - Nonprogram - Credit Sales
Rental Housing Guaranteed Loans
Rural Rental and Rural Cooperative Housing Loans
Rural Housing Site Direct Loans

Rural Utilities Programs

Electric Direct Loans
Electric Guaranteed Loans
Telecommunications Direct Loans
Water and Environmental Direct Loans
Water and Environmental Guaranteed Loans

Table 9a

Program Characteristics – Direct

Major Programs (Direct)	Repayment Period	Interest Rate	Unique Servicing Option
Housing			
Single-Family	Maximum 30-38 years/program	Current	Payment assistance – payment moratoriums – loan reamortization
Rural Rental/Rural Cooperative	1997 and prior – 50 years Subsequent – 50 year amortization with 30 year repayment and balloon	Current	Payment assistance – rental assistance to tenants
Community Facility	Maximum 40 years	4.5% to current	Workout agreements – loan reamortization
Water and Environmental	Useful life not to exceed 40 years	< or equal 5% to current	Principal payment deferments – loan reamortization – loan transfers
Electric	Maximum 35 years	Current or 5%	Payment deferments – loan reamortization – discounted loan prepayments Loans prior to 11/93 received interest rates from 2-5%
Telecommunications	Expected composite life (depreciated life plus 3 years)	Current or 7%	Payment extension
Rural Telephone Bank	Expected useful life not to exceed 35 years	Current or 5%	Payment extension
Development Loans Intermediary Relending	Maximum 30 years	1%	Payment moratoriums
Business and Industry	Maximum 7-30 years per program	Current	Loan reamortization – loan transfer

Table 9b

Program Characteristics – Guaranteed

Major Programs (Guaranteed)	Repayment Period	Interest Rate	Unique Servicing Option
Housing			
Single-Family	Maximum 30 years	Lender	Maximum 90% guarantee – Lender pays 2% fee – Loans may be sold to third party.
Rental Housing	Maximum 40 years	Lender	.5% annual fee is also charged.
Community Facilities	Maximum 40 years	Lender	Maximum 90% guarantee – Lender pays 1% fee – Loans may be sold to third party.
Electric	Maximum 35 years	Lender	100% Guarantee
Business and Industry	Maximum 7-30 years per program	Lender	Guarantee maximum 60-80% - Lender pays 2% fee and .25% annual fee.
Business and Industry – American Recovery and Reinvestment Act	Maximum 7-30 years	Lender	Guarantee Maximum 90%. 1% fee and no annual fee.
Water and Environmental	Maximum 40 years	Lender	Rates will be negotiated between the lender and the borrower. They may be fixed or variable rates.

Discussion of Administrative Expenses, Subsidy Costs, and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses are shown in Table 10.

Table 10

Administrative Expenses (*in millions)*			
FY 2009			
Direct Loan Programs	**Amount**	**Guaranteed Loan Programs**	**Amount**
Total	**$ 281**	***Total***	**$ 370**
FY 2008			
Direct Loan Programs	**Amount**	**Guaranteed Loan Programs**	**Amount**
Total	**$ 233**	***Total***	**$ 288**

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990, as amended, and OMB Circular A-11 governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost." Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are estimated annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on a sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the OMB in order to do its calculations and analysis.

Rural Development's cash flow models are tailored for specific programs based on unique program characteristics. Specific models developed and utilized include models for housing, guaranteed, Electric Underwriters, Federal Financing Bank (FFB) modifications, and a direct loan model that covers the remaining portfolio with similar characteristics. In FY 2009, reestimates for all FFB programs were recorded in accordance with the OMB guidance that FFB debt associated with the loan programs be treated similar to Treasury Debt. In FY 2009 and FY 2008, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY 2009 and FY 2008, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. A key sensitivity element in the guaranteed programs is defaults. Fees and other collections are significant in the guaranteed housing and business and industry programs.

For FY 2009, an analysis was performed on the reestimates and subsidy rates for the direct and guaranteed programs. The changes in the reestimate dollar amounts were due to several factors. The upward reestimates for the Community Facilities and the Telecommunications programs are predominantly due to the implementation of a new direct loan model for the non-housing programs and improved projections for cash flows and overall loan performance. The upward reestimates were $123 million and $149 million, respectively. The Electric FFB programs accounted for the largest portion of the $276 million electric loans upward reestimate adjustment shown in **Table 3**. The current FFB reestimates increase was due to the borrowers interest rates being substantially lower than the single effective rate (SER) used in previous reestimate processes. Finally, the Water and Environmental program had large downward reestimates in the amount of $145 million resulting from the identification of additional prepayments.

For FY 2008, a new credit reform cash flow model was developed for the direct loan programs (non-housing). The improvements made in the model resulted in upward reestimates for the programs and improved projections for cash flows and overall loan performance. Two enhancements that generated the majority of the changes were the expanded amortization methodology and a correction to the adjustment for the difference between the expected and actual unpaid principal balance. Upward reestimates for electric, telecommunications and water and environmental programs were $489 million, $192 million, and $157 million, respectively. In the electric program, the underwriters program contributed significantly to the electric programs reestimate increase mainly due to borrower interest rate changes.

A different methodology is applied with the Federal Financing Bank's financed loans. The Office of Management and Budget, which provides oversight on the credit reform formulation and reestimate processes, recommended that the debt associated with the loan programs be treated similar to other Treasury financed debt. Therefore, those credit reform program yearend processes included earning additional interest on fund balances. Cash flow processes were modified to accommodate this change. The programs impacted include FFB Telephone, FFB Electric, Electric Underwriters, and loan extension modifications.

Table 7 indicates the guaranteed programs recorded a $113 million upward reestimate expense in the current period. The amount is insignificant to the portfolio as a whole and further discussion is unwarranted.

The subsidy amounts reflected in Tables 3 and 7 were impacted by the accounting change discussed in **Notes 1C and N**. Additional interest paid as a result of a downward reestimate is included in FY 2009, resulting in a decreased subsidy expense that would have not been recorded under the FY 2008 method.

Subsidy rates are used to compute each year's subsidy expense as disclosed in Tables 3 and 7. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2009 and FY 2008 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from both current-year cohorts and prior-year cohorts. Table 11 has the direct loan subsidy rates for FY 2009 and FY 2008 and Table 12 has guaranteed program subsidy rates. The 2009 guaranteed subsidy rate with the largest fluctuation from the prior year was the Section 538 Multi-Family Housing guaranteed program. Two subsidy rates were utilized by the Section 538 program. The initial 15.68 percent rate resulted due to an increase in interest assistance provided in conjunction with the loan.

During FY 2008, the Water and Environmental loan program utilized two subsidy rates. New assumptions were provided and approved, which resulted in a subsidy rate of 14.2 percent primarily due to interest rates. The multi-family housing credit sales modified the overage percentage and calculated a 30-year balloon payment, resulting in a 37.14 percent subsidy rate. The Section 514 multi-family housing domestic farm labor program changed default and prepayment assumptions which provided a 43.26 FY 2008 subsidy percentage.

Modifications

A modification is any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. The cost of a modification is the difference between the net present value of the cash flows before and after the modification.

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued through FY 2009. The revitalization project is used to rehabilitate ailing housing developments. In this program, Rural Development determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rent for tenants who live in such projects.

In FY 2009, loan extension modifications were granted for three borrowers in the FFB electric program. The maturity dates were extended up to 20 years on selected advances. Interest rates on the advances did not change. At the time of the modification, the liquidating fund was paid off and the advances were moved to the financing fund. The post-modification cash flows were discounted at the first quarter net present value discount factor from the FY 2009 President's Budget relative to the effective date of the loan extension modifications.

Table 11

Subsidy Rates for Direct Loans (Percentage)											
FY 2009						**FY 2008**					
	Interest Differential	Defaults	Fees and Other Colls.	Other	Total		Interest Differential	Defaults	Fees and Other Colls.	Other	Total
Direct Loan Programs						**Direct Loan Programs**					
Section 502 Single-Family Housing	1.64	5.07	0.00	.01	6.72	Section 502 Single-Family Housing	-13.44	5.73	0.00	17.08	9.37
Section 504 Housing Repair	27.69	0.98	0.00	-1.80	26.87	Section 504 Housing Repair	29.14	0.94	0.00	-1.81	28.27
Credit Sales Section 203 (SFH)	-10.36	7.77	0.00	0.00	-2.59	Credit Sales Section 203 (SFH)	-15.38	7.85	0.00	6.38	-1.15
Section 514 Farm Labor Housing	40.98	9.50	0.00	-8.34	42.14	Section 514 Farm Labor Housing	44.45	8.93	0.00	-10.12	43.26
Section 515 Rural Rental Housing	39.73	1.58	0.00	-0.15	41.16	Section 515 Rural Rental Housing	-17.92	1.13	0.00	59.40	42.61
Section 523 Self-Help Housing Land Development	1.65	0.00	0.00	0.00	1.65	Section 523 Self-Help Housing Land Development	2.84	0.00	0.00	0.00	2.84
Section 524 Housing Site Development	-2.77	0.93	0.00	0.00	-1.84	Section 524 Housing Site Development	-1.71	0.92	0.00	0.00	-0.79
Credit Sales Section 209 (MFH)	27.43	8.74	0.00	-0.05	36.12	Credit Sales Section 209 (MFH)	-17.41	5.41	0.00	49.14	37.14
Community Facilities	1.27	4.77	0.00	-0.32	5.72	Community Facilities	5.40	0.73	0.00	-0.58	5.55
Distance Learning and Telemedicine	0.00	2.48	0.00	-0.02	2.46	Distance Learning and Telemedicine	0.00	2.15	0.00	-0.01	2.14
Broadband	0.00	3.65	0.00	0.25	3.90	Broadband	0.00	2.17	0.00	-0.02	2.15
Water & Environmental	13.41	1.64	0.00	-0.43	14.62	Water & Environmental *	7.03	0.09	0.00	-0.31	6.81
Electric Hardship	-2.55	0.99	0.00	-0.82	-2.38	Electric Hardship	-0.03	0.96	0.00	-0.81	0.12
Electric Municipal	Not Funded					Electric Municipal	Not Funded				
FFB Electric	-2.97	0.70	0.00	-0.01	-2.28	FFB Electric	-1.37	0.67	0.00	0.00	-0.70
Electric Treasury	Not Funded					Electric Treasury	Not Funded				
Telephone Hardship	-2.86	1.02	0.00	0.08	-1.76	Telephone Hardship	-0.96	1.00	0.00	0.04	0.08
Telephone Treasury	0.04	0.23	0.00	-0.06	0.21	Telephone Treasury	0.00	0.64	0.00	0.03	0.67
FFB Telephone	-1.47	0.80	0.00	-0.27	-0.94	FFB Telephone	-0.01	0.85	0.00	-0.22	0.62
Intermediary Relending Program	42.09	0.40	0.00	-0.64	41.85	Intermediary Relending Program	43.53	0.00	0.00	-0.64	42.89
Rural Economic Development	21.49	0.21	0.00	-0.82	20.88	Rural Economic Development	23.15	0.21	0.00	-0.77	22.59
Electric Underwriters	Not Funded					Electric Underwriters	-1.49	0.55	0.00	0.00	-0.94
MFH Preservation Demo	Not Funded					MFH Preservation Demo	46.39	0.00	0.00	0.00	46.39

***Rate in effect 5/2008, 14.20%**

Table 12

Subsidy Rates for Loan Guarantees (Percentage)											
FY 2009						**FY 2008**					
	Interest Differential	Defaults	Fees and Other Colls.	Other	Total		Interest Differential	Defaults	Fees and Other Colls.	Other	Total
Guaranteed Loan Programs						**Guaranteed Loan Programs**					
Section 502 Single-Family Housing	0.00	3.27	-2.00	0.00	1.27	Section 502 Single-Family Housing	0.00	3.20	-2.00	0.00	1.20
Section 502 Single-Family Housing - Refinance	0.00	1.48	-0.50	0.00	0.98	Section 502 Single-Family Housing - Refinance	0.00	1.31	-0.50	0.00	0.81
Section 538 Multi-Family Housing **	22.33	0.57	-7.22	0.00	15.68	Section 538 Multi-Family Housing	16.91	0.42	-7.94	0.01	9.40
Community Facilities	0.00	3.95	-0.87	0.00	3.08	Community Facilities	0.00	4.54	-0.86	0.00	3.68
Business and Industry	0.00	7.80	-3.45	0.00	4.35	Business and Industry	0.00	7.33	-3.01	0.00	4.32
Business and Industry ARRA	0.00	8.17	-0.83	0.00	7.34						
NAD Bank	0.00	13.51	-3.15	0.00	10.36	NAD Bank	0.00	10.84	-3.14	-0.01	7.69
Water and Environmental	0.00	0.00	-0.82	0.00	-0.82	Water and Environmental	0.00	0.00	-0.82	0.00	-0.82
Renewable Energy	0.00	11.25	-1.56	0.00	9.69	Renewable Energy	0.00	11.97	-2.28	0.00	9.69

** Rate in effect August 2009, 0.57 percent.

Other Disclosures

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

For FY's 2009 and 2008, rural housing program properties consisted primarily of 1,082 and 800 rural single-family dwellings, respectively. The average holding period for single-family housing properties in inventory for FY's 2009 and 2008 was 15 months and 17 months, respectively. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2009 and 2008 was 8,300 and 7,100, respectively. Certain properties can be leased to eligible individuals.

Commitments to Guarantee

As of September 30, 2009 and 2008, there were approximately $5.7 billion and $3.5 billion in commitments to extend loan guarantees, respectively. For FY 2009, $2.6 was attributed to funds committed under the ARRA.

Non-performing Loans

Rural Development's loan interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days.

Interest Credit

Approximately $18.1 billion and $17.7 billion of the rural housing programs unpaid loan principal as of September 30, 2009 and 2008, respectively, was receiving interest credit. If those loans receiving interest credit had interest accrued at the full-unreduced rate, interest income would have been approximately $967 million and $947 million higher for FY's 2009 and 2008, respectively. At the end of FY's 2009 and 2008, the Rural Development housing portfolio contained approximately 71.4 thousand and 73.3 thousand restructured loans with an outstanding unpaid principal balance of $2.4 billion and $2.4 billion, respectively.

NOTE 7: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

Amounts are presented in millions.

FY 2009						
Classes	**Cost**	**Accumulated Depreciation**	**Book Value**	**Estimated Useful Life***	**Method of Depreciation****	**Capitalization Threshold**
Personal Property						
Equipment	$ 2	$ 2	$ 0	5-20	SL	$ 25,000
Internal Use Software	99	57	42	5-8	SL	$ 100,000
Internal Use Software in Development	11	0	11	2-15	SL	$ 100,000
Total	**$ 112**	**$ 59**	**$ 53**			

FY 2008						
Classes	**Cost**	**Accumulated Depreciation**	**Book Value**	**Estimated Useful Life***	**Method of Depreciation****	**Capitalization Threshold**
Personal Property						
Equipment	$ 3	$ 3	$ 0	5-20	SL	$ 25,000
Internal Use Software	97	44	53	5-8	SL	$ 100,000
Internal Use Software in Development	9	0	9	2-15	SL	$ 100,000
Total	**$ 109**	**$ 47**	**$ 62**			

* Range of Service Life
** SL - Straight Line

NOTE 8: OTHER ASSETS

Amounts are presented in millions.

	FY 2009		FY 2008
Intragovernmental			
Advances to Others	$ 1		$ 1
Total Intragovernmental	**$ 1**		**$ 1**
With the Public			
Investment in Loan Asset Sale Trust*	$ 35		$ 35
Other	2		2
Total Other Assets – Non-Governmental	**$ 37**		**$ 37**
Total Other Assets	**$ 38**		**$ 38**

* In FY 1987, a loan asset sale was conducted as required in the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509). As a result of these sales, the Rural Development Insurance Fund (RDIF) and the Rural Housing Insurance Fund (RHIF) maintain investments in the Class C securities of the Community Program, Loan Trust, 1987A, and the Rural Housing Trust, 1987-1, respectively. These investments represent a residual security in the respective Trust and entitle Rural Development to residual cash flows resulting from loan repayments not required to pay trust security holders or to fund required reserves. Rural Development intends to retain the RDIF and RHIF Class C investments into the foreseeable future.

NOTE 9: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Amounts are presented in millions.

	FY 2009		FY 2008
Intragovernmental			
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 7		$ 6
Total Intragovernmental	**$ 7**		**$ 6**
With the Public			
Federal Employee and Veteran Benefits	$ 32		$ 31
Unfunded Annual Leave	38		38
Contingent Liability	1		0
Total Liabilities Not Covered by Budgetary Resources	$ 78		$ 75
Total Liabilities Covered by Budgetary Resources	$ 79,852		$ 74,797
Total Liabilities	**$ 79,930**		**$ 74,872**

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

NOTE 10: DEBT

Amounts are presented in millions.

	FY 2008 Beginning Balance		Net Borrowing		FY 2008 Ending Balance		Net Borrowing		FY 2009 Ending Balance
Intragovernmental Debt									
Debt to the Treasury	$ 37,028		**$** 3,019		**$** 40,047		$ 3,183		**$** 43,230
Debt to the Federal Financing Bank (FFB)	25,903		473		26,376		2,115		28,491
Total Intragovernmental Debt	**$ 62,931**		**$ 3,492**		**$ 66,423**		**$ 5,298**		**$ 71,721**
Agency Debt									
Held by the Public	$ 0		$ 0		$ 0		$ 0		$ 0
Notes Payable	0		0		0		0		0
Total Agency Debt	**$ 0**		**$ 0**		**$ 0**		**$ 0**		**$ 0**
Total Debt	**$ 62,931**		**$ 3,492**		**$ 66,423**		**$ 5,298**		**$ 71,721**

	FY 2009		FY 2008
Classification of Debt			
Intragovernmental Debt	$ 71,721		$ 66,423
Debt Held by the Public	0		0
Total Debt	**$ 71,721**		**$ 66,423**

Borrowing from the Federal Financing Bank (FFB) is either in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with Rural Development unconditionally guaranteeing repayment. CBO's outstanding with FFB are generally secured by unpaid loan principal balances. CBO's outstanding are related to Pre-Credit Reform loans and are no longer used for program financing. FFB CBO's are repaid as they mature and are not related to any particular group of loans.

Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations in which an FFB-funded loan is restructured and the terms of the loan are modified.

Supplemental information associated with debt follows:

Amounts are presented in millions.

	FY 2009		**FY 2008**
Interest Payable, Federal			
Federal Financing Bank	$ 52		$ 50
Total	**$ 52**		**$ 50**

These interest payable amounts associated with borrowings from Treasury and the FFB are included in the table at the beginning of this note.

	FY 2009		**FY 2008**
Interest Expense, Federal			
Federal Financing Bank	$ 1,369		$ 1,450
Treasury	2,237		2,064
Total	**$ 3,606**		**$ 3,514**

NOTE 11: OTHER LIABILITIES

Amounts are presented in millions.

	FY 2009				
	Non-Current		**Current**		**Total**
Intragovernmental					
Employer Contributions & Payroll Taxes Payable	$ 0		$ 5		$ 5
Unfunded FECA Liability	0		7		7
Liability for Deposit Funds & Suspense Accounts	0		(1)		(1)
Other Accrued Liabilities	0		7		7
Total Intragovernmental	**$ 0**		**$ 18**		**$ 18**
Accrued Funded Payroll and Leave	$ 0		$ 21		$ 21
Liability for Deposit Funds and Suspense Accounts	0		0		0
Unfunded Annual Leave	0		38		38
Other Accrued Liabilities	0		70		70
Other	20		(11)		9
Contingent Liabilities	0		1		1
Total Other Liabilities	**$ 20**		**$ 137**		**$ 157**

Amounts are presented in millions.

	FY 2008				
	Non-Current		Current		Total
Intragovernmental					
Employer Contributions & Payroll Taxes Payable	$ 0		$ 4		$ 4
Unfunded FECA Liability	0		6		6
Liability for Deposit Funds & Suspense Accounts	0		(3)		(3)
Other Accrued Liabilities	0		8		8
Payable to Treasury General Fund	0		1,012		1,012
Total Intragovernmental	**$ 0**		**$ 1,027**		**$ 1,027**
Accrued Funded Payroll and Leave	$ 0		$ 18		$ 18
Liability for Deposit Funds and Suspense Accounts	0		127		127
Unfunded Annual Leave	0		38		38
Other Accrued Liabilities	0		79		79
Other	20		(12)		8
Contingent Liabilities	0		0		0
Total Other Liabilities	**$ 20**		**$ 1,277**		**$ 1,297**

These liabilities are covered by Budgetary Resources.

Beginning with FY 2009, the liability related to the Downward Reestimates of Subsidy Expense is being reported as a separate line on the Balance Sheet **(Note 1N)**. Past presentation reported these amounts as Other Liabilities Payable to the Treasury General Fund.

NOTE 12: COMMITMENTS AND CONTINGENCIES

A. COMMITMENTS

Rural Development has commitments under cancelable leases for office space. The majority of buildings in which Rural Development operates are leased by the General Services Administration (GSA). GSA charges rent which is intended to approximate commercial rental rates.

As of September 30, 2009 and 2008, there were approximately $5.7 billion and $3.5 billion in commitments to extend loan guarantees, respectively. For FY 2009, $2.6 billion was attributed to funds committed under the ARRA.

As of September 30, 2009 and 2008, there were no obligations due to cancelled appropriations for which there was a contractual commitment for payment.

B. CONTINGENCIES

The Rural Development mission area is subject to various claims and contingencies related to lawsuits. No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain.

In FY 2009, no new contingencies related to lawsuits were reported.

One breach of contract case regarding Rural Housing Section 515 loan prepayments deemed probable in FY 2008, still remains. As of September 30, 2009, legal counsel was able to make an estimated amount or range of potential loss of $1-20 million.

Although the existing Multi-Family Housing portfolio is in fair to good condition, Rural Development National Office officials have determined that adequate funds have not been accrued to address future maintenance costs. Adequate maintenance programs are necessary or properties and apartment units will physically deteriorate to the point where safety and sanitation will necessitate a general modernization program to maintain their marketability and ultimately compete for tenants. The cost is expected to reach into the hundreds of millions of dollars.

House Resolution 5039, the Saving America’s Rural Housing Act of 2006, was enacted to resolve this problem. The Act enables Rural Development to offer borrowers a financial restructuring plan for the multi-family housing development which may include one or more revitalization benefits.

NOTE 13: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

Amounts are presented in millions.

	FY 2009													
	Mortgage Credit			**Housing Assistance**			**Area & Regional Development**			**Energy Supply & Conservation**			**Consolidated Total**	
Intragovernmental Gross Costs:														
Borrowing Interest Expense	$	746		$	5		$	708		$	2,147		$	3,606
Other		292			22			114			35			463
Total Intragovernmental Gross Cost	**$**	**1,038**		**$**	**27**		**$**	**822**		**$**	**2,182**		**$**	**4,069**
Less: Intragovernmental Earned Revenue **(Note 14)**		135			3			100			233			471
Intragovernmental Net Costs	**$**	**903**		**$**	**24**		**$**	**722**		**$**	**1,949**		**$**	**3,598**
Gross Costs with the Public:														
Grants	$	1		$	1,074		$	704		$	0		$	1,779
Loan Cost Subsidies		334			16			294			280			924
Other		(51)			26			66			(39)			2
Total Gross Costs with the Public	**$**	**284**		**$**	**1,116**		**$**	**1,064**		**$**	**241**		**$**	**2,705**
Less: Earned Revenues from the Public **(Note 14)**		756			3			638			1,922			3,319
Net Costs with the Public	**$**	**(472)**		**$**	**1,113**		**$**	**426**		**$**	**(1,681)**		**$**	**(614)**
Net Cost of Operations	**$**	**431**		**$**	**1,137**		**$**	**1,148**		**$**	**268**		**$**	**2,984**

Amounts are presented in millions.

	FY 2008								
	Mortgage Credit		**Housing Assistance**		**Area & Regional Development**		**Energy Supply & Conservation**		**Consolidated Total**
Intragovernmental Gross Costs:									
Borrowing Interest Expense	$ 672		$ 3		$ 668		$ 2,171		$ 3,514
Other	207		25		86		26		344
Total Intragovernmental Gross Cost	**$ 879**		**$ 28**		**$ 754**		**$ 2,197**		**$ 3,858**
Less: Intragovernmental Earned Revenue **(Note 14)**	98		3		81		178		360
Intragovernmental Net Costs	**$ 781**		**$ 25**		**$ 673**		**$ 2,019**		**$ 3,498**
Gross Costs with the Public:									
Grants	$ 0		$ 1,019		$ 776		$ 0		$ 1,795
Loan Cost Subsidies	372		14		288		648		1,322
Other	225		40		178		798		1,241
Total Gross Costs with the Public	**$ 597**		**$ 1,073**		**$ 1,242**		**$ 1,446**		**$ 4,358**
Less: Earned Revenues from the Public **(Note 14)**	1,065		3		748		2,367		4,183
Net Costs with the Public	**$ (468)**		**$ 1,070**		**$ 494**		**$ (921)**		**$ 175**
Net Cost of Operations	**$ 313**		**$ 1,095**		**$ 1,167**		**$ 1,098**		**$ 3,673**

OTHER DISCLOSURES

FUNCTION LEVEL TITLE	SUBFUNCTION LEVEL TITLE	BUDGET SUBFUNCTION CODE	ACTIVITY INCLUDED IN FINANCIAL STATEMENTS (where applicable)	LOAN/GRANT PROGRAMS INCLUDED IN BUDGET SUBFUNCTION CODE
Commerce & Housing	Mortgage Credit	371	Rural Housing Programs	Single Family Housing (Direct & Guaranteed) Multi-Family Housing (Direct & Guaranteed)
Income Security	Housing Assistance	604	Rural Housing Programs	Domestic Farm Labor Grants Very Low-Income Housing Repair Grants Construction Defects Rental Assistance Program Other Housing Grants
Community & Regional Development	Area & Regional Development	452	Rural Housing Programs	Rural Community Facility (Direct & Guaranteed)
			Rural Business Programs	Rural Business & Industry (Direct & Guaranteed) Rural Economic Development (Loans & Grants) Rural Development Loan Funds
			Rural Utilities Programs	Rural Water & Environmental (Direct & Guaranteed) Distance Learning & Telemedicine
Energy	Energy Supply & Conservation	271 272	Rural Utilities Programs	Rural Electric & Telecommunications
Agriculture	Agricultural Research & Services	352	Rural Business Programs	Conservation Loan
National Resources	Water Resources Conservation & Land Management Pollution Control & Abatement	301 302 304	Other	Hazardous Waste Disposal

USDA and the individual agencies preparing their own financial statements are required to prepare the Statement of Net Cost at the subfunction level. The Statement of Net Cost, as prepared by Treasury, shows these activities at their function level.

NOTE 14: EARNED REVENUES

Amounts are presented in millions.

	FY 2009				
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Total
Intragovernmental					
Interest Revenue from Treasury	$ 125	$ 2	$ 96	$ 232	$ 455
Other	10	1	4	1	16
Total	**$ 135**	**$ 3**	**$ 100**	**$ 233**	**$ 471**
With the Public					
Interest Revenue	$ 744	$ 3	$ 622	$ 1,922	$ 3,291
Other	12	0	16	0	28
Total	**$ 756**	**$ 3**	**$ 638**	**$ 1,922**	**$ 3,319**
Total Earned Revenues	**$ 891**	**$ 6**	**$ 738**	**$ 2,155**	**$ 3,790**

	FY 2008				
	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Total
Intragovernmental					
Interest Revenue from Treasury	$ 89	$ 2	$ 77	$ 177	$ 345
Other	9	1	4	1	15
Total	**$ 98**	**$ 3**	**$ 81**	**$ 178**	**$ 360**
With the Public					
Interest Revenue	$ 1,059	$ 2	$ 735	$ 2,367	$ 4,163
Other	6	1	13	0	20
Total	**$ 1,065**	**$ 3**	**$ 748**	**$ 2,367**	**$ 4,183**
Total Earned Revenues	**$ 1,163**	**$ 6**	**$ 829**	**$ 2,545**	**$ 4,543**

Other Disclosures

A. Credit Reform

The amount of subsidy expense on post-1991 direct loans equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities within a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted 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 1H** and **Note 6**.

B. Exchange Transactions With Non-Federal Sources

When a new direct loan program becomes a reality, the applicable public law normally addresses interest rates to be charged to borrowers in some fashion. Public laws can be specific, state a minimum and/or maximum rate, or be in general terms. The following general discussion about borrower interest rates is in relation to loan programs within each of our mission areas.

Rural Housing Program: The two largest loan programs (single family housing and rural rental and cooperative housing) have a statutory basis for rates that is not less than the current average market yield on outstanding U.S. marketable obligations of comparable maturities. This rate has been determined to be the 25-year Treasury rate.

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

Rural Utilities Program: Water and environmental loans have a statutory basis for a rate which has a range between less than or equal to 5 percent to not greater than the current market yield for outstanding municipal obligations of comparable maturities adjusted to the nearest 1/8 of 1 percent. Telephone cost-of-money loans have a statutory basis for a rate equal to the current cost-of-money to the Federal Government for loans of a similar maturity, but not to exceed 7 percent. Electric municipal rate loans have a statutory basis for a rate equal to the current market yield on outstanding municipal obligations, subject to a 7 percent maximum, with remaining periods to maturity similar to the term selected by the applicant. Telephone and electric hardship rate loans have a statutory basis for a rate of 5 percent. The rate on telephone and electric loans purchased by the Federal Financing Bank shall be the rate applicable to similar loans being made or purchased by the Federal Financing Bank.

C. Exchange Transactions with Federal Sources

Rural Development serves as a temporary source of supervised credit until borrowers are able to qualify for private sector resources. As the lender of last resort, Rural Development is unable to recoup all the costs associated with its loan making and loan servicing activities. The main reason is that the costs associated with borrowings from Treasury to make loans exceed the interest income received from borrowers plus any interest income earned from Treasury.

NOTE 15: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Amounts are presented in millions.

	FY 2009				
	Direct		**Reimbursable**		**Total**
Category A	$ 187		$ 519		$ 706
Category B	21,863		36		21,899
Total Obligations Incurred	**$ 22,050**		**$ 555**		**$ 22,605**

	FY 2008				
	Direct		**Reimbursable**		**Total**
Category A	$ 172		$ 510		$ 682
Category B	18,594		2		18,596
Total Obligations Incurred	**$ 18,766**		**$ 512**		**$ 19,278**

FY 2008, amounts for both direct and reimbursable obligations incurred for Apportionment Category A and B were reclassified. Approximately $172 million of direct and $510 million of reimbursable were removed from Category B and included in Category A based on additional SF132 analysis performed in FY 2009 by the USDA Office of the Chief Financial Officer.

NOTE 16: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2009 and 2008, the amount of available borrowing authority was $21.3 billion and $20.1 billion, respectively.

NOTE 17: TERMS OF BORROWING AUTHORITY USED

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

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.

Other terms of borrowing authority used: In general, borrowings are for periods of between one year and approximately fifty years depending upon the loan program/cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect during the period of loan disbursements. Some individual loans are disbursed over several quarters or years. Consequently, several interest rates can be applicable to an individual loan. Thus, a single weighted-average interest rate is maintained for each cohort and is adjusted each year until the disbursements for the cohort have been made. Each year, the current average annual interest rate is weighted by current year disbursements and merged with the prior years weighted average to calculate a new weighted average.

Prepayments can be made on Treasury borrowings in the liquidating and financing accounts without penalty; however, they cannot be made on Federal Financing Bank Certificates of Beneficial Ownership in the liquidating accounts without penalty.

NOTE 18: PERMANENT INDEFINITE APPROPRIATIONS

Existence, purpose, and availability of permanent indefinite appropriations: Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability for apportionment and the program accounts for reestimates related to upward adjustments of subsidy. 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 for the program accounts by information about the actual performance of a cohort or estimated changes in future cash flows of the cohort.

The period of availability for these appropriations are as follows: (1) Annual authority is available for obligation only during a specified year and expires at the end of that time; (2) Multi-year authority is available for obligation for a specified period of time in excess of one fiscal year; (3) 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 expires 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.

NOTE 19: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

The availability/use of budget authority (i.e., unobligated balances) for obligation and expenditure are limited by purpose, amount, and time.

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

- **Amount** – Obligations and expenditures may not exceed the amounts established by 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 **(Note 18).**

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

NOTE 20: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2011 Budget of the United States Government, with the Actual Column completed for FY 2009, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2010. The Budget will be available from the Government Printing Office.

The 2010 Budget of the United States Government, with the Actual Columns completed for FY 2008, was published in May 2009 and reconciled to the SBR. Reconciling items were noted as described in the table below. The reconciling items represent:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President's Budget "actual" column per OMB Circular No. A-11 but is included in the SBR.
- In FY 2008, Total Net Outlays on the SBR reflect an accounting reduction for Distributed Offsetting Receipts. Also in FY 2008, OMB Circular A-136 required including certain clearing accounts and miscellaneous receipt accounts on the Distributed Offsetting Receipts line.
- In FY 2008, BioMass Research and Development was included in the SBR, but not included in Budget and Alternative Agricultural Research and Commercialization Corporation Revolving Fund was not included in the SBR, but was included in the Budget.
- Amounts due to rounding.

Reconciliation Between FY 2008 Statement of Budgetary Resources and the President's Budget

Amounts are presented in millions.

Applicable Line From SBR	Amount from SBR	Applicable Line From President's Budget	Amount From President's Budget	Legitimate Differences	Reporting Errors
Total Budgetary Resources (Line 7)	$ 23,034	Total budgetary resources available for obligation	$ 22,897	$ 137 E - 116 R - 5 A - (1) B - 17	None
Obligations Incurred (Line 8)	$ 19,278	Total new obligations	$ 19,236	$ 42 E - 26 R - 2 B - 14	None
Distributed Offsetting Receipts (Line 19C)	$ (493)	Treasury Combined Statement (Receipts by Department)	$ (493)	$ 0	None
Total Net Outlays (Line 19D)	$ 4,823	Outlays	$ 5,308	$ (485) O - (493) A - (1) R - (1) B - 10	None

LEGEND

A = Adjustment
E = Expired Budgetary Authority
B = Transfer of BIOMASS Program
O = Distributed Offsetting Receipts
R = Rounding

NOTE 21: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2009 and 2008, the amount of undelivered orders was $29.1 billion and $25.8 billion, respectively. This increase was largely due to additional funding in FY 2009 provided through the ARRA. The remaining amount as presented on the financial statement line is attributed to delivered orders.

NOTE 22: ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

Amounts are presented in millions.

	FY 2009 Obligated		FY 2008 Obligated
Beginning Balances	$ 25,273		$ 23,109
Adjustments	0		0
Beginning Balances, as adjusted	**$ 25,273**		**$ 23,109**

NOTE 23: INCIDENTAL CUSTODIAL COLLECTIONS

Amounts are presented in millions.

	Custodial Activity	
	FY 2009	**FY 2008**
Sources of Collections		
Natural Resources Conservation Service Loan Collections	$ 3	$ 2
Total Revenue Collected	**$ 3**	**$ 2**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	$ 3	$ 2
Total Disposition of Revenue	**$ 3**	**$ 2**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 24: RECONCILIATIONS OF NET COST OF OPERATIONS TO BUDGET

AMOUNTS ARE PRESENTED IN MILLIONS	**2009**	**2008**
Resources Used to Finance Activities**:**		
Budgetary Resources Obligated		
Obligations Incurred	$ 22,605	$ 19,278
Less: Spending Authority from Offsetting Collections and Recoveries	12,205	11,798
Obligations Net Offsetting Collections and Recoveries	10,400	7,480
Less: Offsetting Receipts	1,309	493
Net Obligations	9,091	6,987
Other Resources		
Imputed Financing from Costs Absorbed by Others	253	126
Other	(624)	0
Net Other Resources Used to Finance Activities	(371)	126
Total Resources Used to Finance Activities	**$ 8,720**	**$ 7,113**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ (3,299)	$ (2,429)
Resources That Fund Expenses Recognized in Prior Periods	(1,943)	(271)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	10,491	9,937
Change in Unfilled Customer Orders	215	48
Other	1,313	493
Resources That Finance the Acquisition of Assets	(13,457)	(11,849)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	616	1
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (6,064)**	**$ (4,070)**
Total Resources Used to Finance the Net Cost of Operations	**$ 2,656**	**$ 3,043**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 0	$ 1
Upward/Downward Reestimates of Credit Subsidy Expense	972	875
Other	0	3
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	972	879
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	13	9
Revaluation of Assets or Liabilities	(3)	0
Other Components Not Requiring or Generating Resources		
Bad Debt Expense	(654)	(256)
Other	0	(2)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(644)	(249)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**328**	**630**
Net Cost of Operations	**$ 2,984**	**$ 3,673**

NOTE 25: FIDUCIARY ACTIVITY

Fiduciary activities are the collection or receipt, and management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have ownership interest that the Federal Government must uphold.

Fiduciary assets are not assets of the Rural Development and are not recognized on the Balance Sheet.

Rural Housing Insurance Fund (RHIF) was established by Public Law 89-117 pursuant to section 517 of title V of the Housing Act of 1949, which authorized Rural Development to collect escrow payments on behalf of new and existing Single Family Housing borrowers. Other fiduciary activities by Rural Development include but are not limited to collections from borrowers, interest paid on escrow accounts, payments to insurance agencies and taxing authorities.

Refer to Note 1C regarding the implementation of SFFAS No. 31, Accounting For Fiduciary Activity.

Schedule of Fiduciary Activity
For the year ended September 30, 2009

Amounts are presented in millions.

	FY 2009 Escrow
Fiduciary Net Assets, beginning of year	**$ 95**
Contributions	433
Disbursements	431
Increase/Decrease in Fiduciary Fund Balances	**$ 2**
Fiduciary Net Assets, end of year	**$ 97**

Schedule of Fiduciary Net Assets
For the year ended September 30, 2009

Amounts are presented in millions.

	FY 2009 Escrow
Cash and Cash Equivalents:	
Escrow Funds held at Treasury	$ 8
Investments – Short Term	21
Investments – Long Term	68
Total Fiduciary Net Assets	**$ 97**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 176	$ 479	$ 201	$ 356
Recoveries of Prior Year Unpaid Obligations	74	199	74	120
Budget Authority				
Appropriation	2,736	0	825	0
Borrowing Authority (Notes 16 & 17)	0	1,859	0	2,801
Spending Authority from Offsetting Collections:				
Earned				
Collected	209	1,437	225	1,150
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	162	0	50
Nonexpenditure Transfers, Net, Anticipated & Actual	145	0	120	0
Permanently Not Available	(224)	(720)	(263)	(1,531)
Total Budgetary Resources	**$ 3,116**	**$ 3,416**	**$ 1,182**	**$ 2,946**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 1,894	2,883	$ 1,006	$ 2,467
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	1,174	330	142	328
Unobligated Balance Not Available	48	203	34	151
Total Status of Budgetary Resources	**$ 3,116**	**$ 3,416**	**$ 1,182**	**$ 2,946**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 2,523	$ 4,174	$ 2,475	$ 4,089
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(2)	(347)	(2)	(297)
Total Unpaid Obligated Balance, Net	**2,521**	**3,827**	**2,473**	**3,792**
Obligations Incurred, Net	1,894	2,883	1,006	2,467
Gross Outlays	(1,182)	(2,094)	(884)	(2,262)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(74)	(199)	(74)	(120)
Change in Uncollected Customer Payments from Federal Sources	0	(162)	0	(50)
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	3,161	4,764	2,523	4,174
Uncollected Customer Payments from Federal Sources	(2)	(509)	(2)	(347)
Total Unpaid Obligated Balance, Net, End of Period	**$ 3,159**	**$ 4,255**	**$ 2,521**	**$ 3,827**
Net Outlays				
Gross Outlays	$ 1,182	$ 2,094	$ 884	$ 2,262
Offsetting Collections	(209)	(1,437)	(225)	(1,150)
Distributed Offsetting Receipts	(59)	0	(128)	0
Total Net Outlays	**$ 914**	**657**	**$ 531**	**$ 1,112**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 1,259	$ 474	$ 666	$ 142
Recoveries of Prior Year Unpaid Obligations	4	182	15	508
Budget Authority				
Appropriation	1,098	0	884	0
Borrowing Authority (Notes 16 & 17)	0	7,595	0	8,044
Spending Authority from Offsetting Collections:				
Earned				
Collected	2,087	3,466	2,617	2,882
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	(4)	0	(8)
Nonexpenditure Transfers, Net, Anticipated & Actual	1	0	0	0
Permanently Not Available	(1,582)	(1,625)	(2,140)	(1,479)
Total Budgetary Resources	**$ 2,867**	**$ 10,088**	**$ 2,042**	**$ 10,089**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 1,320	$ 9,796	$ 783	$ 9,615
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	279	292	820	474
Unobligated Balance Not Available	1,268	0	439	0
Total Status of Budgetary Resources	**$ 2,867**	**$ 10,088**	**$ 2,042**	**$ 10,089**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 101	$ 14,429	$ 219	$ 11,794
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	0	(22)	0	(31)
Total Unpaid Obligated Balance, Net	**101**	**14,407**	**219**	**11,763**
Obligations Incurred, Net	1,320	9,796	783	9,615
Gross Outlays	(1,320)	(7,266)	(886)	(6,471)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(4)	(182)	(15)	(508)
Change in Uncollected Customer Payments from Federal Sources	0	4	0	8
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	97	16,777	101	14,429
Uncollected Customer Payments from Federal Sources	0	(18)	0	(22)
Total Unpaid Obligated Balance, Net, End of Period	**$ 97**	**$ 16,759**	**$ 101**	**$ 14,407**
Net Outlays				
Gross Outlays	$ 1,320	$ 7,266	$ 886	$ 6,471
Offsetting Collections	(2,087)	(3,466)	(2,617)	(2,882)
Distributed Offsetting Receipts	(550)	0	(256)	0
Total Net Outlays	**$ (1,317)**	**$ 3,800**	**$ (1,987)**	**$ 3,589**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Programs Financing Accounts
	Rural Telephone Bank Funds	**Rural Telephone Bank Funds**	**Rural Telephone Bank Funds**	**Rural Telephone Bank Funds**
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 0	$ 27	$ 40	$ 0
Recoveries of Prior Year Unpaid Obligations	1	48	4	254
Budget Authority				
Appropriation	99	0	1	0
Borrowing Authority (Notes 16 & 17)	0	0	0	41
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	174	0	63
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	(1)	0	(6)
Nonexpenditure Transfers, Net, Anticipated & Actual	0	0	0	0
Permanently Not Available	0	(181)	(21)	(255)
Total Budgetary Resources	**$ 100**	**$ 67**	**$ 24**	**$ 97**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 99	$ 35	$ 24	$ 70
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	0	9	0	1
Unobligated Balance Not Available	1	23	0	26
Total Status of Budgetary Resources	**$ 100**	**$ 67**	**$ 24**	**$ 97**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 6	$ 415	$ 11	$ 723
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	0	(5)	0	(12)
Total Unpaid Obligated Balance, Net	**6**	**410**	**11**	**711**
Obligations Incurred, Net	99	35	24	70
Gross Outlays	(100)	(86)	(25)	(123)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(1)	(48)	(4)	(254)
Change in Uncollected Customer Payments from Federal Sources	0	1	0	6
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	4	317	6	415
Uncollected Customer Payments from Federal Sources	0	(5)	0	(5)
Total Unpaid Obligated Balance, Net, End of Period	**$ 4**	**$ 312**	**$ 6**	**$ 410**
Net Outlays				
Gross Outlays	$ 100	$ 86	$ 25	$ 123
Offsetting Collections	0	(174)	0	(63)
Distributed Offsetting Receipts	(6)	0	(40)	0
Total Net Outlays	**$ 94**	**$ (88)**	**$ (15)**	**$ 60**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	**Rural Housing Funds**	**Rural Housing Funds**	**Rural Housing Funds**
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 39	$ 907	$ 67	$ 747
Recoveries of Prior Year Unpaid Obligations	27	75	19	64
Budget Authority				
Appropriation	1,024	0	816	0
Borrowing Authority (Notes 16 & 17)	0	2,027	0	1,228
Spending Authority from Offsetting Collections:				
Earned				
Collected	796	2,047	928	1,831
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	17	0	(18)
Nonexpenditure Transfers, Net, Anticipated & Actual	68	0	10	0
Permanently Not Available	(726)	(704)	(915)	(737)
Total Budgetary Resources	**$ 1,228**	**$ 4,369**	**$ 925**	**$ 3,115**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 1,023	$ 3,308	$ 886	$ 2,208
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	147	628	11	212
Unobligated Balance Not Available	58	433	28	695
Total Status of Budgetary Resources	**$ 1,228**	**$ 4,369**	**$ 925**	**$ 3,115**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 193	$ 689	$ 204	$ 726
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	0	(201)	0	(219)
Total Unpaid Obligated Balance, Net	**193**	**488**	**204**	**507**
Obligations Incurred, Net	1,023	3,308	886	2,208
Gross Outlays	(984)	(3,166)	(878)	(2,181)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(27)	(75)	(19)	(64)
Change in Uncollected Customer Payments from Federal Sources	0	(17)	0	18
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	205	755	193	689
Uncollected Customer Payments from Federal Sources	0	(217)	0	(201)
Total Unpaid Obligated Balance, Net, End of Period	**$ 205**	**$ 538**	**$ 193**	**$ 488**
Net Outlays				
Gross Outlays	$ 984	$ 3,166	$ 878	$ 2,181
Offsetting Collections	(796)	(2,047)	(928)	(1,831)
Distributed Offsetting Receipts	(669)	0	(57)	0
Total Net Outlays	**$ (481)**	**$ 1,119**	**$ (107)**	**$ 350**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 16	$ 0	$ 26	$ 0
Recoveries of Prior Year Unpaid Obligations	2	0	1	0
Budget Authority				
Appropriation	988	0	567	0
Borrowing Authority (Notes 16 & 17)	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	0	1	0
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	0	0	0
Nonexpenditure Transfers, Net, Anticipated & Actual	8	0	2	0
Permanently Not Available	(52)	0	(61)	0
Total Budgetary Resources	**$ 962**	**$ 0**	**$ 536**	**$ 0**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 940	$ 0	$ 520	$ 0
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	21	0	15	0
Unobligated Balance Not Available	1	0	1	0
Total Status of Budgetary Resources	**$ 962**	**$ 0**	**$ 536**	**$ 0**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 1,479	$ 0	$ 1,887	$ 0
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	0	0	0	0
Total Unpaid Obligated Balance, Net	**1,479**	**0**	**1,887**	0
Obligations Incurred, Net	940	0	520	0
Gross Outlays	(995)	0	(932)	0
Unpaid Obligation Balance Transfers	0	0	5	0
Recoveries of Prior Year Unpaid Obligations	(2)	0	(1)	0
Change in Uncollected Customer Payments from Federal Sources	0	0	0	0
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	1,422	0	1,479	0
Uncollected Customer Payments from Federal Sources	0	0	0	0
Total Unpaid Obligated Balance, Net, End of Period	**$ 1,422**	**$ 0**	**$ 1,479**	**$ 0**
Net Outlays				
Gross Outlays	$ 995	$ 0	$ 932	$ 0
Offsetting Collections	0	0	(1)	0
Distributed Offsetting Receipts	0	0	0	0
Total Net Outlays	**$ 995**	**$ 0**	**$ 931**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 31	$ 3	$ 56	$ 0
Recoveries of Prior Year Unpaid Obligations	8	10	13	10
Budget Authority				
Appropriation	92	0	100	0
Borrowing Authority (Notes 16 & 17)	0	68	0	99
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	41	0	29
Change in Receivables from Federal Sources	0	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	10	0	23
Nonexpenditure Transfers, Net, Anticipated & Actual	20	0	(14)	0
Permanently Not Available	(1)	(29)	(1)	(19)
Total Budgetary Resources	**$ 150**	**$ 103**	**$ 154**	**$ 142**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 106	$ 88	$ 123	$ 139
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	43	15	28	3
Unobligated Balance Not Available	1	0	3	0
Total Status of Budgetary Resources	**$ 150**	**$ 103**	**$ 154**	**$ 142**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 226	$ 185	$ 225	$ 112
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	0	(46)	0	(23)
Total Unpaid Obligated Balance, Net	**226**	**139**	**225**	**89**
Obligations Incurred, Net	106	88	123	139
Gross Outlays	(101)	(73)	(104)	(56)
Unpaid Obligation Balance Transfers	0	0	(5)	0
Recoveries of Prior Year Unpaid Obligations	(8)	(10)	(13)	(10)
Change in Uncollected Customer Payments from Federal Sources	0	(10)	0	(23)
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	223	191	226	185
Uncollected Customer Payments from Federal Sources	0	(57)	0	(46)
Total Unpaid Obligated Balance, Net, End of Period	**$ 223**	**$ 134**	**$ 226**	**$ 139**
Net Outlays				
Gross Outlays	$ 101	$ 73	$ 104	$ 56
Offsetting Collections	0	(41)	0	(29)
Distributed Offsetting Receipts	(3)	0	0	0
Total Net Outlays	**$ 98**	**$ 32**	**$ 104**	**$ 27**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	Salaries & Expense	Salaries & Expense	Salaries & Expense
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 29	$ 0	$ 34	$ 0
Recoveries of Prior Year Unpaid Obligations	18	0	35	0
Budget Authority				
Appropriation	192	0	170	0
Borrowing Authority (Notes 16 & 17)	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	654	0	510	0
Change in Receivables from Federal Sources	1	0	0	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	0	0	0
Nonexpenditure Transfers, Net, Anticipated & Actual	0	0	0	0
Permanently Not Available	(10)	0	(14)	0
Total Budgetary Resources	**$ 884**	**$ 0**	**$ 735**	**$ 0**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 193	$ 0	$ 194	$ 0
Reimbursable	555	0	512	0
Unobligated Balance:				
Apportioned	113	0	3	0
Unobligated Balance Not Available	23	0	26	0
Total Status of Budgetary Resources	**$ 884**	**$ 0**	**$ 735**	**$ 0**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 114	$ 0	$ 125	$ 0
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(1)	0	(1)	0
Total Unpaid Obligated Balance, Net	**113**	**0**	**124**	0
Obligations Incurred, Net	748	0	706	0
Gross Outlays	(691)	0	(682)	0
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(18)	0	(35)	0
Change in Uncollected Customer Payments from Federal Sources	(1)	0	0	0
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	153	0	114	0
Uncollected Customer Payments from Federal Sources	(2)	0	(1)	0
Total Unpaid Obligated Balance, Net, End of Period	**$ 151**	**$ 0**	**$ 113**	**$ 0**
Net Outlays				
Gross Outlays	$ 691	$ 0	$ 682	$ 0
Offsetting Collections	(654)	0	(510)	0
Distributed Offsetting Receipts	3	0	0	0
Total Net Outlays	**$ 40**	**$ 0**	**$ 172**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Amounts are presented in millions

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 277	$ 39	$ 93	$ 2
Recoveries of Prior Year Unpaid Obligations	19	158	10	163
Budget Authority				
Appropriation	2,617	0	306	0
Borrowing Authority (Notes 16 & 17)	0	80	0	498
Spending Authority from Offsetting Collections:				
Earned				
Collected	100	150	93	152
Change in Receivables from Federal Sources	3	0	(21)	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	31	0	7
Nonexpenditure Transfers, Net, Anticipated & Actual	(38)	0	1	0
Permanently Not Available	(41)	(239)	(41)	(216)
Total Budgetary Resources	**$ 2,937**	**$ 219**	**$ 441**	**$ 606**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 206	$ 159	$ 164	$ 567
Reimbursable	0	0	0	0
Unobligated Balance:				
Apportioned	2,646	60	215	39
Unobligated Balance Not Available	85	0	62	0
Total Status of Budgetary Resources	**$ 2,937**	**$ 219**	**$ 441**	**$ 606**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 281	$ 1,154	$ 264	$ 925
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(5)	(67)	(26)	(59)
Total Unpaid Obligated Balance, Net	**276**	**1,087**	**238**	**866**
Obligations Incurred, Net	206	159	164	567
Gross Outlays	(206)	(218)	(137)	(176)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(19)	(158)	(10)	163
Change in Uncollected Customer Payments from Federal Sources	(3)	(31)	21	(7)
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	262	937	281	1,154
Uncollected Customer Payments from Federal Sources	(8)	(98)	(5)	(67)
Total Unpaid Obligated Balance, Net, End of Period	**$ 254**	**$ 839**	**$ 276**	**$ 1,087**
Net Outlays				
Gross Outlays	$ 206	$ 218	$ 137	$ 176
Offsetting Collections	(100)	(150)	(93)	(152)
Distributed Offsetting Receipts	(25)	0	(12)	0
Total Net Outlays	**$ 81**	**$ 68**	**$ 32**	**$ 24**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts are presented in millions

	2009 Budgetary Total	2009 Non-Budgetary Credit Program Financing Accounts Total	2008 Budgetary Total	2008 Non-Budgetary Credit Program Financing Accounts Total
Budgetary Resources:				
Unobligated Balance brought forward, Oct. 1	$ 1,827	$ 1,929	$ 1,183	$ 1,247
Recoveries of Prior Year Unpaid Obligations	153	672	171	1,119
Budget Authority				
Appropriation	8,846	0	3,669	0
Borrowing Authority (Notes 16 & 17)	0	11,629	0	12,711
Spending Authority from Offsetting Collections:				
Earned				
Collected	3,846	7,315	4,374	6,107
Change in Receivables from Federal Sources	4	0	(21)	0
Change in Unfilled Customer Orders				
Without Advance from Federal Sources	0	215	0	48
Nonexpenditure Transfers, Net, Anticipated & Actual	204	0	119	0
Permanently Not Available	(2,636)	(3,498)	(3.456)	(4,237)
Total Budgetary Resources	**$ 12,244**	**$ 18,262**	**$ 6,039**	**$ 16,995**
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$ 5,781	$ 16,269	$ 3,700	$ 15,066
Reimbursable	555	0	512	0
Unobligated Balance:				
Apportioned	4,423	1,334	1,234	1,057
Unobligated Balance Not Available	1,485	659	593	872
Total Status of Budgetary Resources	**$ 12,244**	**$ 18,262**	**$ 6,039**	**$ 16,995**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, Oct. 1	$ 4,923	$ 21,046	$ 5,410	$ 18,369
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(8)	(688)	(29)	(641)
Total Unpaid Obligated Balance, Net	**4,915**	**20,358**	**5,381**	**17,728**
Obligations Incurred, Net	6,336	16,269	4,212	15,066
Gross Outlays	(5,579)	(12,903)	(4,528)	(11,269)
Unpaid Obligation Balance Transfers	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(153)	(672)	(171)	(1,119)
Change in Uncollected Customer Payments from Federal Sources	(4)	(215)	21	(48)
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 21)	5,527	23,741	4,923	21,046
Uncollected Customer Payments from Federal Sources	(12)	(904)	(8)	(688)
Total Unpaid Obligated Balance, Net, End of Period	**$ 5,515**	**$ 22,837**	**$ 4,915**	**$ 20,358**
Net Outlays				
Gross Outlays	$ 5,579	$ 12,903	$ 4,528	$ 11,269
Offsetting Collections	(3,846)	(7,315)	(4,374)	(6,107)
Distributed Offsetting Receipts	(1,309)	0	(493)	0
Total Net Outlays	**$ 424**	**$ 5,588**	**$ (339)**	**$ 5,162**