



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Rural Telephone Bank's Financial Statements for Fiscal Year 2006

Report No. 15401-7-FM
November 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



November 9, 2006

REPLY TO

ATTN OF: 15401-7-FM

TO: Board of Directors
Rural Telephone Bank

ATTN: John M. Dunsmuir
Acting Director
Financial Management Division
Rural Development

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

SUBJECT: Rural Telephone Bank's Financial Statements for Fiscal Year 2006

This report represents the auditors' opinion on the Rural Telephone Bank's (RTB) basic financial statements for the fiscal year ended September 30, 2006. Reports on RTB's internal control and on its compliance with laws and regulations are also provided.

Ofori & Associates, P.C., an independent certified public accounting firm, conducted the audits. We monitored the progress of the audits at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* (issued by the Comptroller General of the United States), and the Office of Management and Budget (OMB) Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

It is the opinion of Ofori & Associates, P.C., that the financial statements present fairly, in all material respects, RTB's financial position as of September 30, 2006; and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles.

Their report on RTB's internal control contains no reportable conditions and their report on compliance with laws and regulations identifies no instances of noncompliance.



Ofori & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

**U.S. DEPARTMENT OF AGRICULTURE
RURAL TELEPHONE BANK (RTB)**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

and

INDEPENDENT AUDITOR'S REPORT THEREON

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ACCOUNTANTS, MANAGEMENT & INFORMATION TECHNOLOGY CONSULTANTS

**U.S. DEPARTMENT OF AGRICULTURE
RURAL TELEPHONE BANK (RTB)**

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Ofori & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Financial Statements

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the accompanying Balance Sheet of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of September 30, 2006, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year then ended. These financial statements are the responsibility of the management of RTB. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 the Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RTB as of September 30, 2006, and its net cost, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Footnote 1.A, the President's Fiscal Year 2006 Budget provides for the dissolution of RTB.

The information in the Management's Discussion & Analysis (MD&A) is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A information.

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In accordance with *Government Auditing Standards*, we have also issued reports dated October 27, 2006, on our consideration of RTB's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Ofori & Associates, PC.

October 27, 2006



Ofori & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Internal Control over Financial Reporting

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the accompanying balance sheet of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of September 30, 2006 and the related statements of net cost, changes in net position, and financing, and the statement of budgetary resources for the year then ended, and have issued our report thereon dated October 27, 2006. We conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered RTB'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 financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03 and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The objective of our audit was not to provide assurance on RTB's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect RTB's ability to meet the objectives of internal control. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of RTB, Rural Development (RD), United States Department of Agriculture (USDA), Office of the Inspector General (OIG), OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ofori & Associates, PC.

October 27, 2006



Ofori & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the balance sheet of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of September 30, 2006, and the related statements of net cost, changes in net position, and financing, and the statement of budgetary resources for the year then ended, and have issued our report thereon dated October 27, 2006. We conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of RTB is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of RTB's compliance with certain provisions of laws and regulations and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to RTB. 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 of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Under FFMIA, we are required to report on whether RTB's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

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The results of our tests disclosed no instances where RTB's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the management of RTB, Rural Development (RD), United States Department of Agriculture (USDA) Office of the Inspector General (OIG), OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ofori & Associates, PC.

October 27, 2006

Rural Telephone Bank's

Management Discussion and Analysis

As of September 30, 2006

Rural Telephone Bank's vision for rural America

Mission and Organizational Structure

The Rural Telephone Bank (RTB) was designed to assure rural telephone systems access to private sources of capital by establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. Since its inception in 1971, RTB has approved approximately \$4.37 billion, net of rescissions, in loans to rural telecommunications infrastructure.

Ownership of RTB, in addition to the United States Government, consists of borrowers, former borrowers and other related organizations authorized to invest. RTB operates on a cooperative basis and earnings, in excess of the annual return of two percent required on the Government's investment, are returned to the non-government owners.

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

Performance Goals and Results

The President's Fiscal Year 2006 Budget proposed to establish the process and terms to implement a dissolution of the RTB due to insufficient demand for the bank's loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock. In August 2005, the RTB board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB, subject to there being no legal restriction on redeeming Government owned Class A Stock.

On November 10, 2005, the liquidation and dissolution process was initiated with the signing of the 2006 Agriculture Appropriations bill by President Bush, which contained a provision lifting the restriction on the retirement of more than 5 percent of the Class A

stock held by the U.S. government. This paved the way for all Bank stock to be redeemed.

The liquidation and dissolution process is currently underway. Redemption payments began in April 2006 and were completed by September 30, 2006.

Due to the dissolution of the Rural Telephone Bank, all direct loans will now be serviced by the Rural Utilities program area and reported as Telecommunication loans for FY 2006 and forward.

Entity's Systems, Controls and Legal Compliance

The purpose of the Federal Managers' Financial Integrity Act (FMFIA) is to promote the development of management structures that ensure management accountability for results and include appropriate, cost effective controls. The FMFIA requires annual assurance statements on both management controls and compliance with financial management system requirements.

For fiscal year 2006, Rural Development is reporting that our internal controls and financial management and accounting systems are compliant with Section 2 and Section 4 of the FMFIA Report. Additionally, Rural Development has fulfilled the requirements for documenting and testing of internal controls as required by OMB Circular No. A-123 Management Accountability and Control.

Future Opportunities and Challenges

Dissolution activities will continue on a smaller scale into FY2007. All remaining dissolution activities and issues should be resolved by the first half of FY2008.

Limitations on Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

U.S. Department of Agriculture
Rural Telephone Bank
BALANCE SHEET
As of September 30, 2006
(in dollars)

	<u>FY 2006</u>
ASSETS	
Assets for Use by Entity:	
Federal	
Fund Balance with Treasury (Note 2)	\$ 39,726,691
Total Assets	<u>\$ 39,726,691</u>
LIABILITIES	
Liabilities Covered by Budgetary Resources:	
Non-Federal	
B Stock Payable (Note 3)	0
C Stock Payable (Note 3)	0
Total Liabilities	<u>\$ 0</u>
NET POSITION	
Unexpended Appropriations	
Equity of the U.S. Government	
Capital Stock Class A (Note 3)	0
Total Equity of the U.S. Government	<u>0</u>
Cumulative Results of Operations	<u>39,726,691</u>
Total Net Position	<u>39,726,691</u>
Total Liabilities and Net Position	<u>\$ 39,726,691</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 2006
(in dollars)

	<u>FY 2006</u>
Program Costs	
Intragovernmental Gross Costs	
Operating Expense	\$ 0
Total Intragovernmental Gross Costs	0
Less: Intragovernmental Earned Revenue (Note 4)	<u>39,762,915</u>
Intragovernmental Net Costs	(39,762,915)
Gross Costs with the Public	36,224
Less: Earned Revenues from the Public (Note 4)	<u>0</u>
Net Costs with the Public	36,224
Net Cost of Operations	<u>\$ (39,726,691)</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2006
(in dollars)

	FY 2006 Cumulative Results of Operations
	<hr/>
Beginning Balance	\$ 1,773,420,025
Budgetary Financing Sources:	
Other Adjustments	
Other Budgetary Financing Sources:	
B Stock Reclassification	(525,991,247)
C Stock Reclassification	(909,237,000)
Class B & C Stock Transferred from the Financing Fund	30,669,983
Transfers In /Out without Reimbursement	(368,861,761)
	<hr/>
Total Budgetary Financing Sources	(1,773,420,025)
Net Cost of Operations	39,726,691
	<hr/>
Ending Balances	\$ 39,726,691
	<hr/> <hr/>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Year Ended September 30, 2006
(in dollars)

	2006
	<u>Budgetary</u>
Budgetary Resources:	
Unobligated Balance brought forward, Oct. 1	\$ 1,471,593,748
Recoveries of Prior Year Unpaid Obligations	31,184,545
Spending Authority from Offsetting Collections:	
Earned	
Collected	45,635,092
Change in Receivables from Federal Sources	(5,872,178)
Nonexpenditure Transfers, Net, Anticipated & Actual	(65,099,747)
Permanently Not Available	(2,500,000)
Total Budgetary Resources	<u>\$ 1,474,941,460</u>
Status of Budgetary Resources:	
Obligations Incurred: (Note 5)	
Direct	1,435,214,769
Unobligated Balance Not Available	39,726,691
Total Status of Budgetary Resources	<u>\$ 1,474,941,460</u>
Change in Obligated Balance:	
Obligated Balance, Net	
Unpaid Obligations Brought Forward, Oct. 1	81,452,389
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct. 1	(5,872,178)
Total Unpaid Obligated Balance, Net	<u>\$ 75,580,211</u>
Obligations Incurred, Net	1,435,214,769
Gross Outlays	(1,485,482,613)
Recoveries of Prior Year Unpaid Obligations	31,184,545
Change in Uncollected Customer Payments from Federal Sources	(5,872,178)
Obligated Balance, Net, End of Period	0
Net Outlays	
Gross Outlays	1,485,482,613
Offsetting Collections	(45,635,092)
Total Net Outlays	<u>\$ 1,439,847,521</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF FINANCING
For the Fiscal Year Ended September 30, 2006
(in dollars)

	<u>FY 2006</u>
Resources Used To Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	\$ 1,435,214,769
Less: Spending Authority From Offsetting Collections and Recoveries	<u>70,947,459</u>
Obligations Net of Offsetting Collections and Recoveries	1,364,267,310
Less: Offsetting Receipts	<u>0</u>
Total Resources Used To Finance Activities	<u>1,364,267,310</u>
Resources Used To Finance Items Not Part Of The Net Costs Of Operations:	
Change in Budgetary Resources Obligated For Goods, Services, and Benefits Ordered But Not Yet Provided	(31,184,544)
Resources That Finance the Liquidation of Liabilities	<u>1,435,214,769</u>
Total Resources Used to Finance Items Not Part of The Net Cost of Operations	<u>1,404,030,225</u>
Total Resources Used to Finance the Net Cost of Operations	<u>(39,762,915)</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	
Components Not Requiring or Generating Resources:	
Other	<u>36,224</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	36,224
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>36,224</u>
Net Cost of Operations	<u>\$ (39,726,691)</u>

The accompanying notes are an integral part of these statements.

RURAL TELEPHONE BANK

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Rural Telephone Bank (RTB), established in May 1971, provided a supplemental source of financing under the rural utilities telephone loan program. As part of the United States Department of Agriculture (USDA), Rural Development assisted rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. RTB lent principally to rural telephone organizations.

RTB, a government corporation, functions as an agency of USDA, subject to the supervision and direction of the Secretary of Agriculture. As provided by law, the Administrator of the rural utilities program area serves as the Governor of RTB. In this capacity, the Governor may exercise and perform all of RTB's functions, powers, and duties, except for matters specifically reserved for its Board of Directors.

The President's Fiscal Year (FY) 2006 Budget proposed to establish the process and terms to implement dissolution of the RTB due to insufficient demand for the Bank's loans and the availability of adequate financing from other sources. In August 2005, the RTB Board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB. With the passage of the *2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act*, there was no current legal restriction on redeeming Government-owned Class A Stock. As a result, the liquidation and dissolution of the RTB began in earnest during the first quarter of FY 2006. During FY 2008, the RTB will be dissolved in its entirety and will no longer be a reportable entity.

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, net costs, and changes in net position of RTB as required by the Government Management Reform Act of 1994, and in conformity with

generally accepted accounting principles (GAAP). GAAP for Federal financial reporting entities recognize the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body designated to establish these principles for these entities. The financial statements have also been prepared from the books and records of RTB in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, with additional presentation disclosures to encompass RTB's unique business processes.

Single year statements are presented due to the dissolution/liquidation process. The RTB program and financing funds were transferred from the Bank's equity, creating an inconsistency between the ending and beginning net position. Only the liquidating fund balance with Treasury and stock remained under the Bank's control after the loans receivable transfer, with the majority of assets subsequently disbursed to the respective shareholders.

C. Basis of Accounting

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

D. Fund Balance with the United States Treasury

RTB maintains all cash accounts with the United States Treasury (Treasury). It is the policy of RTB not to maintain cash in commercial bank accounts, except in the normal course of processing cash receipts through third-party commercial banking institutions. Fund Balance with Treasury represents revolving funds that are available to pay current liabilities. RTB earns interest on all cash balances maintained at Treasury in accordance with the terms of the 1973 note executed by RTB and Treasury, Section 505(c) of the Federal Credit Reform Act of 1990 and legislation (Public Law 109-97).

E. Loans Receivable, Net

As of October 1, 2005, loans obligated before FY 1992 have been transferred and reported under the Liquidating Telephone portfolio Treasury symbol as a part of the RTB dissolution. (See Note 11.)

The value of assets included in the Liquidating Telephone portfolio Treasury symbol was recorded at \$303,762,013. The transfer of the RTB Liquidating account was in accordance with RTB Resolution 2005-8 item number two and the Loan Transfer Agreement, dated August 4, 2005. These loans will now be serviced under the Rural Utilities Telecommunication program, in addition to the financing loans obligated post-FY 1991.

F. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since RTB is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity. As of September 30, 2006, all Class B and C stock has been redeemed which leaves no liabilities owed by the Bank.

G. Operations

The Rural Electrification (RE) Act of 1936, as amended, and RTB's enabling legislation authorize RTB to partially or jointly use the facilities and services of employees of Rural Development, or of any other agency of the USDA, without cost. In previous years, the Federal Credit Reform Act provided appropriated funds to RTB to cover administrative costs. The *2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act* required \$2,500,000 for administrative costs to be transferred from the unobligated balances in the RTB liquidating account. This amount represents the additional cost to Rural Development for managing RTB. In this regard, RTB's operations are conducted by Rural Development administrative and program employees who have similar responsibilities under Rural Development's Telecommunications Program.

H. Intra-Governmental Relationships and Transactions

In the course of its operations, RTB has relationships and financial transactions with other Federal agencies. The more prominent of these are with Rural Development and Treasury. Rural Development determines the annual cost allocations associated with the administration of RTB by Rural Development employees. Treasury pays interest on the Fund Balance with Treasury.

I. Liquidation and Dissolution

The Bank transferred on October 1, 2005, the pre-FY 1991 loan portfolio, the financing account, and the program account to the rural utilities program in exchange for a commitment to return all Class A stock to the Bank for redemption and cancellation.

On April 10, 2006, Rural Development paid the Government the outstanding Class A stock balance, which allowed the process of redeeming the Class B and C stock to begin. (See Note 3 for Outstanding Capital Stock Accounts.)

Any funds remaining shall be distributed to the Class A and B stockholders in accordance with Section 411 of the Rural Electrification Act after the payment of all the Bank's liabilities; redemption of all the Bank's Class A, B, and C stock; and set-aside amounts held for disputed claims and unredeemed shares.

NOTE 2: FUND BALANCE WITH TREASURY

Amounts presented in dollars.

	September 30, 2006
Fund Balances:	
Revolving Funds	\$39,726,691
Unobligated Balance	
Restricted *	\$39,726,691

* Becomes available in November 2007 for final distribution.

NOTE 3: CAPITAL STOCK

Amounts presented in dollars.

	September 30, 2006
A summary of the RTB capital stock structure follows:	
CAPITAL STOCK CLASS A (\$1 par value)	
Shares authorized	600,000,000
Shares issued and outstanding at the time of dissolution	368,861,761
Shares outstanding as of 9/30/06	0
CAPITAL STOCK CLASS B (\$1 par value)	
Shares authorized	Unlimited
Shares outstanding at the time of dissolution	525,991,247
Shares outstanding as of 9/30/06	0
Stock dividends (distributed 12/05 - included above)	35,167,600
CAPITAL STOCK CLASS C (\$1,000 par value)	
Shares authorized	Unlimited
Shares outstanding at the time of dissolution	909,237,000
Shares outstanding as of 9/30/06	0
Cash dividends (distributed 12/05)	50,254,366

Capital Stock Class A

Public Laws 92-12 and 97-98 authorized Congress, in FY's 1971 through 1991, to appropriate no more than \$30 million per year for the purchase of RTB Class A stock. The law provided that Congress annually appropriate funds until such purchases approximated \$600 million, the total amount of Class A stock purchased under this authority was \$592.1 million.

For the past 9 consecutive years, the Bank has repurchased \$223.2 million of its Class A stock, leaving \$368.9 million outstanding at the time of dissolution. In addition, the Bank paid an annual dividend of 2% of the outstanding balance to Treasury. However, no dividend was paid in FY 2006 due to the Bank dissolution and the Class A stock redemption.

Upon receipt of the final valuation of the Liquidating Account Loan Portfolio, an adjustment was made reducing the Class A stock value owed by the Bank by the \$303,762,013; thereby leaving a Class A stock value owed by the Bank in the Liquidating Account of \$65,099,747. On April 10, 2006, Rural Development paid to the Government the outstanding Class A stock balance enabling the redemption of the Class B and C stock.

Capital Stock Class B and C

The adoption of Resolution 2005-8 provided that the Bank will conduct no further business beginning October 1, 2005, except that which is necessary to liquidate the Bank's assets. As a result, RTB discontinued Class B and C stock transactions as of October 1, 2005, except as follows: FY 2005 patronage capital distribution of \$35,167,597 and the \$10,000,000 transfer of restricted capital to Class B stock outstanding increasing the Class B stock balance to \$525,991,247. Class C Stock remained the same from September 30, 2005, in the amount of \$909,237,000.

Once the Class A stock was redeemed, the process of redeeming the Class B and Class C began during the week of April 10, 2006. As of September 30, 2006, all Class B and C stock has been redeemed. See redemption schedule as follows:

Stocks Redeemed (in dollars)	B Stock	C Stock
April	\$480,281,731	\$827,348,000
May	17,119,863	10,336,000
June	4,441,729	219,000
July	502,944	45,306,000
August	23,563,973	22,780,000
September	81,007	3,248,000
Total Stock Disbursed	\$525,991,247	\$909,237,000

\$1,435,228,247

Restricted Capital

The Omnibus Budget Reconciliation Act of 1987 required the RTB to establish a contingency reserve for interest rate fluctuations. As a result, the RTB Board of Directors amended the bylaws of RTB regarding the allocation of patronage capital and established a reserve of \$10 million. Any amounts in the reserve for interest rate fluctuations, classified as Restricted Capital on the Balance Sheet, in excess of \$10 million would be allocated as Class B stock dividends to those borrowers holding Class B stock during the fiscal year the amounts were earned. In the first quarter of FY 2006, the Restricted Capital was distributed to the Class B shareholders as a patronage dividend.

Cumulative Results of Operations

Cumulative Results of Operations are allocated to the various components of Net Position based on the requirement of the RE Act. Specifically, current results of operations are comprised of the redemption of Class A stock, the reclassification of Class B and C stock from equity to a payable, Net Cost of Operations, transfer of salaries and expense transfer, and the move of Class B and C stock from the financing fund to the liquidating fund.

NOTE 4: EARNED REVENUES

Amounts presented in dollars.

	September 30, 2006
Intragovernmental Earned Revenue	
Interest Revenue from U.S. Treasury	\$39,726,691

NOTE 5: APPORTIONMENTS OF OBLIGATIONS INCURRED

Direct obligations incurred as of September 30, 2006, is approximately \$1.435 billion. This amount was apportioned for the redemption of the Class B and C stock.

NOTE 6: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

- *Legal arrangements affecting the use of unobligated balances of budget authority:* The availability/use of budgetary resources (i.e., unobligated balances) for obligation and expenditure are limited by purpose, amount, and time.
- *Purpose:* Funds may be obligated and expended only for the purposes authorized in appropriations acts or other laws.
- *Amount:* Obligations and expenditures may not exceed the amounts established in law. Amounts available are classified as either definite (i.e., not to exceed a specified amount) or indefinite (i.e., amount is determined by specified variable factors).
- *Time:* The period of time during which budgetary resources may incur new obligations is different from the period of time during which the budgetary resources may be used to disburse funds.

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