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REPORT TO THE CONGRESS



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BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

UNITED STATES
GENERAL ACCOUNTING OFFICE

JAN 27 1976

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Examination Of The Rural Telephone Bank's Financial Statements For Fiscal Years Ended June 30, 1975 And 1974

Department of Agriculture

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JAN. 26, 1976



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159292

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the financial statements of the Rural Telephone Bank, Department of Agriculture, for the fiscal years ended June 30, 1975 and 1974.

We made the examination pursuant to the Government Corporation Control Act (31 U.S.C. 841).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Agriculture and the Treasury; and the Governor, Rural Telephone Bank.

A handwritten signature in black ink, reading "James B. Steele".

Comptroller General
of the United States

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<u>ABBREVIATIONS</u>		
GAO	General Accounting Office	
REA	Rural Electrification Administration	

D I G E S T

The Bank's purposes are to:

- Obtain funds through the sale of stock and debentures to supplement the Rural Electrification Administration's telephone loan program.
- Make loans to eligible providers of telephone service in rural areas.
- Conduct its operations, as much as possible, on a self-sustaining basis. The objective of the Congress is that the Bank eventually become a privately owned, operated, and financed corporation. (See p. 1.)

OPINION ON FINANCIAL STATEMENTS

The Bank is authorized by law to use Department of Agriculture personnel and facilities at no cost. Therefore these costs, primarily for the Rural Electrification Administration and Office of the General Counsel personnel and facilities, are not included in the Bank's reported operating expenses. (See p. 9.)

An important source of funds to the Bank is the sale of class A stock to the United States. The stock is entitled to a return of 2 percent a year. The availability of these low-cost funds resulted in subsidizing interest rates to Bank borrowers by \$5.2 million and \$3.3 million in fiscal years 1975 and 1974, respectively. Without this subsidy, many borrowers would be eligible for Rural Electrification Administration-insured loans which involve a greater average subsidy and a correspondingly higher overall cost to the Government.

The Bank has classified its borrowings from the U.S. Treasury as a long-term liability. The Policies and Procedures Manual for Guidance

of Federal Agencies requires that these funds be classified as part of the Federal investment.

In GAO's opinion, except for the classification of borrowings discussed above, the Bank's financial statements present fairly its financial position at June 30, 1975 and 1974, and the results of its operations and the changes in financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See p. 10.)

CHAPTER 1

INTRODUCTION

(Public Law 92-12 (85 Stat. 29), approved May 7, 1971, established the Rural Telephone Bank as a corporate body and an agency and instrumentality of the United States to meet the growing capital needs of rural telephone systems. The law amended the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.), which, since 1949, has authorized the Department of Agriculture's Rural Electrification Administration (REA) to make loans for providing and improving rural telephone service. 271

2 The Bank's purposes are to:

- Obtain funds through the sale of stock and debentures to supplement REA's telephone loan program.
- Make loans to providers of telephone service in rural areas which either have received REA loans or loan commitments or have been certified eligible for them by the Administrator of REA.
- Conduct its operations, as much as possible, on a self-sustaining basis. The objective of the Congress is that the Bank eventually become a privately owned, operated, and financed corporation. 270

Public Law 92-324 (86 Stat. 390), approved June 30, 1972, further amended the Rural Electrification Act of 1936 to permit the Bank to issue debentures to the Secretary of the Treasury and to authorize him to purchase them.

Public Law 93-32 (87 Stat. 65) further amended the act on May 11, 1973. This law established the Rural Electrification and Telephone Revolving Fund as a source for financing REA loans. The law also (1) allowed a U.S. guarantee of the Bank's debentures (2) established the interest rate on Bank loans as the average cost of money to the Bank as determined by the Governor but not less than 5 percent a year, and (3) increased the Bank's borrowing authority.

MANAGEMENT AND ADMINISTRATION

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The Secretary of Agriculture supervises and directs the Bank, and the Administrator of REA is its chief executive officer--the Governor of the Bank. A board of directors--the Telephone Bank Board--manages the Bank. The Board comprises two ex officio members, five members appointed by the President, and six elected members. Current Board members

and those who served during fiscal years 1975 and 1974 are listed in the appendix.

CAPITALIZATION

The Bank's capital consists of capital stock subscribed by (1) the U.S. Government, (2) Bank borrowers, (3) corporations and public bodies eligible to become borrowers, and (4) organizations controlled by such entities. There are three classes of capital stock.

Class A stock is issuable, at a par value of \$1 a share, only to the Administrator of REA on behalf of the United States. The Congress is authorized to appropriate up to \$30 million annually for purchasing class A stock until such purchases total \$300 million. The Department of Agriculture's fiscal year 1975 appropriation act, Public Law 93-563 (88 Stat. 1822), approved December 31, 1974, provided \$30 million for the purchase of class A stock. Cumulative purchases as of June 30, 1975, totaled \$120 million.

The Bank must redeem and retire class A stock as soon as practicable after June 30, 1985, and after the class A and class B stock issued totals \$400 million. The minimum amount of class A stock to be retired must equal the amount of class B stock sold during each year after this date. Before retiring this stock, however, the Telephone Bank Board must decide that this action will not impair the Bank's operations.

Class A stock actually paid into the Bank is entitled to a return, payable from income, of 2 percent a year. The return is computed from the date the Bank actually uses the funds provided by the sale of this stock and is payable annually to the Government.

Class B stock is issuable, at a par value of \$1 a share, only to the Bank's borrowers. The act requires borrowers to invest in class B stock an amount equal to 5 percent of any loans obtained from the Bank for purposes other than purchasing class B stock. No cash dividends are paid on class B stock. Its holders, however, are entitled to patronage refunds in the form of class B stock. These refunds are made from net income after provisions are made for a contingency reserve, return on class A stock, and cash dividends on class C stock. During fiscal year 1975 the Bank issued \$9,892,934 of class B stock. Of this amount, \$545,874 was issued as patronage refunds. The cumulative amount of class B stock issued through June 30, 1975, was \$21,299,196.

Class C stock is issuable, at a par value of \$1,000 a share, to Bank borrowers, corporations, and public bodies eligible to borrow or organizations controlled by such entities. Dividends may be paid on class C stock from the Bank's income at a rate determined by the Telephone Bank Board. No dividends may be declared on class C stock until any arrearages have been paid to the holder of the cumulative class A stock. Until all class A stock is retired, the Board may not declare any dividends on class C stock at an annual rate higher than the current average rate payable on the Bank's telephone debentures. The Bank issued \$12,000 of class C stock during fiscal year 1975. Cumulative class C stock of \$545,000 was issued through June 30, 1975. Dividends of \$26,650 were paid to class C stockholders during the year.

CONVERSION OF OWNERSHIP, OPERATION, AND
CONTROL OF THE BANK

Whenever 51 percent of the maximum amount of class A stock issued to the United States and outstanding at any time after June 30, 1985, has been fully redeemed and retired:

- The Telephone Bank Board shall select the Governor of the Bank.
- The five members of the Board designated by the President shall no longer be members.
- The Bank shall no longer be an agency of the United States but shall continue to be a U.S. instrumentality and a banking corporation.

When all class A stock has been fully redeemed and retired, loans made by the Bank shall no longer be subject to certain restrictions prescribed by the act. The Congress has reserved the right, however, to review the Bank's continued operations after all class A stock has been fully redeemed and retired.

CHAPTER 2
OPERATIONS

LENDING AUTHORITY

The Bank is authorized to make loans, in conformance with policies approved by the Telephone Bank Board, to corporations and public bodies which have received REA telephone loans or loan commitments or which have been certified eligible for them by the Administrator of REA. (Public Law 92-12, 85 Stat. 35 and Public Law 93-32, 87 Stat. 70.)

The Bank's loans may be made:

- For the same purposes and under the same limitations as loans made by REA under section 201 of the act.
- To finance or refinance the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems to improve the efficiency, effectiveness, or financial stability of REA's or the Bank's telephone loan borrowers.
- To pay for the class B stock required to be purchased by borrowers.

The act provides that a telephone loan be made by the Bank, in preference to a loan by REA, if the borrower is eligible for a loan from the Bank and if the Bank has funds available. However, if the loan is for facilities for a telephone system which, on the average, will have three or fewer subscribers for each mile of telephone line, the loan is to be made by REA, unless the borrower elects to obtain the loan from the Bank. Under the act, as amended by Public Law 93-32 (87 Stat. 69), REA may make loans at either 5 percent or 2 percent, depending on the borrower's qualifications.

A loan may not be made unless the Governor of the Bank certifies that in his judgment (1) the security for the loan is reasonably adequate and the loan will be repaid within the time agreed and (2) the borrower is capable of producing net income or margins before interest at least equal to 150 percent of the interest requirements on all of its outstanding and proposed loans or such higher percentage as the Telephone Bank Board may periodically establish. The Governor may waive the second requirement under certain emergency or hardship conditions.

All loans made by the Bank must be fully repaid within 50 years. As of June 30, 1975, a total of 410 loans had been approved for 323 borrowers and 258 borrowers had received advances. Generally, these advances are to be fully repaid within 35 years.

Loans by the Bank under Public Law 92-12 (85 Stat. 35) were required to earn interest at the highest practicable rate consistent with the borrowers' ability to pay but not less than 4 percent a year. Interest rates on loans made under the act ranged from 4 to 8 percent a year. Public Law 93-32 (87 Stat. 71) amended this loan provision by providing that the Bank's loans earn interest at the cost-of-money rate. This rate is the average cost of money to the Bank as determined by the Governor and may not be less than 5 percent a year.

SOURCE OF FUNDS

The funds for Bank loan advances are provided primarily from the sale of class A stock to the U.S. Government and the sale of telephone debentures to the Secretary of the Treasury.

The Bank is authorized to issue telephone debentures to the Secretary of the Treasury who may purchase them at his discretion. Each purchase of debentures by the Secretary must yield a return at least equal to a rate he determines. In determining this rate he must consider the current average yield on outstanding marketable U.S. obligations of comparable maturity.

On July 26, 1973, the Bank issued a debenture in the form of a note to the Secretary of the Treasury to fund advances, as needed, on Bank loans. In fiscal year 1975 the Bank borrowed \$82,648,000 against this note at interest rates ranging from 7-7/8 to 8-3/4 percent. The Bank's borrowings as of June 30, 1975, totaled \$132,070,000. Interest cost for using this money was \$5,878,337.

The Bank is also authorized to obtain funds through public or private sale of its bonds, debentures, notes, and other evidences of indebtedness (collectively called telephone debentures). The amount of debentures outstanding at any time may not exceed 20 times the Bank's paid-in capital and retained earnings.

EXPANSION OF OPERATIONS

In fiscal year 1975 the Bank's telephone loan program continued to grow. The Bank approved loans to 54 additional

telephone borrowers and made loan advances to 80 additional borrowers. Total loans approved increased by \$160,187,790, and advances on loans increased by \$129,877,866.

	From inception through <u>June 30, 1975</u>	From inception through <u>June 30, 1974</u>	Increase fiscal year <u>1975</u>
Loans approved	\$557,532,080	\$397,344,290	\$160,187,790
Advances on loans approved	\$274,228,758	\$144,350,892	\$129,877,866
Number of bor- rowers with:			
Loans ap- proved	323	269	54
Advances on loans ap- proved	258	178	80

Approved loans of \$557,532,080 at June 30, 1975, included \$104,302,090 for 54 cooperatives and \$453,229,990 for 269 commercial companies. Interest rates on these loans ranged from 4 to 8 percent. The following table shows the distribution of loans approved by interest rates.

<u>Number</u>	<u>Interest rate</u>	<u>Amount</u>
52	4.0%	\$ 41,183,200
13	4.5	9,198,000
21	5.0	25,332,300
12	5.5	22,714,650
18	6.0	21,850,000
40	6.5	62,504,400
82	7.0	136,580,550
59	7.5	104,684,790
<u>113</u>	8.0	<u>133,484,190</u>
a/ <u>410</u>		<u>\$557,532,080</u>

a/These loans were held by 323 cooperatives and commercial companies.

During fiscal year 1975, the combined REA and Bank rural telephone loan and guarantee program provided financing for 56,309 miles of telephone line and 308,461 new telephone subscribers. Also, the combined totals of loans and guarantees approved by REA and the Bank, and equity cash provided by borrowers increased \$583,814,599 for (1) constructing, refinancing, or acquiring telephone lines,

facilities, or systems, (2) purchasing class B stock, and (3) other purposes. The following table summarizes this information, which REA compiled.

	<u>From inception through</u>		<u>Fiscal year</u>
	<u>June 30, 1975</u>	<u>June 30, 1974</u>	<u>1975</u>
Miles of telephone line	<u>693,064</u>	<u>636,755</u>	<u>56,309</u>
Telephone subscribers:			
To receive initial service	2,078,861	1,770,400	308,461
To receive improved service	<u>1,415,682</u>	<u>1,256,288</u>	<u>159,394</u>
Total number of subscribers	<u>3,494,543</u>	<u>3,026,688</u>	<u>467,855</u>
Total funds required, by purpose:			
Construction	\$3,205,017,165	\$2,650,857,646	\$554,159,519
Refinancing	75,167,941	55,513,809	19,654,132
Acquisition	66,879,608	64,553,050	2,326,558
Class B stock and other purposes	<u>34,876,044</u>	<u>27,201,654</u>	<u>7,674,390</u>
Total funds required	<u>\$3,381,940,758</u>	<u>\$2,798,126,159</u>	<u>\$583,814,599</u>
Source of funds:			
REA loans	\$2,487,335,227	\$2,287,396,227	\$199,939,000
Bank loans	557,532,080	397,344,290	160,187,790
REA guarantees	<u>200,000,000</u>	<u>0</u>	<u>200,000,000</u>
Total loans	3,244,867,307	2,684,740,517	560,126,790
Cash required to be provided by borrowers	<u>137,073,451</u>	<u>113,385,642</u>	<u>23,687,809</u>
Total funds required	<u>\$3,381,940,758</u>	<u>\$2,798,126,159</u>	<u>\$583,814,599</u>

Net income and returns on capital stock

The Bank's net income for fiscal year 1975 and 1974, before the return on class A stock, was \$7,663,778 and \$5,225,526, respectively. The 2 percent return on class A stock payable to the Government from net income was \$2,318,421 and \$1,519,959 for these years.

After the close of fiscal year 1975, the Telephone Bank Board declared a 5-percent dividend to class C stockholders of record on June 30, 1975, and a patronage refund to class B stockholders equal to 10 percent of the interest revenue from these stockholders. Class C stockholders received \$27,250 in cash dividends, and class B stockholders received \$1,293,017 in additional shares of class B stock. The remaining net income balance of \$4,025,090 was put in the reserve for contingencies.

CHAPTER 3

SCOPE OF EXAMINATION AND OPINION ON

FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

Our audit of the Rural Telephone Bank consisted principally of examining its statements of financial condition at June 30, 1975 and 1974, and the related statements of income, expense, and patronage capital and changes in financial position for the years then ended. We reviewed the system of internal control and basic laws, rules, and regulations applicable to the Bank to ascertain the policies and restrictions under which it was required to operate. Our audit was made at the Rural Telephone Bank, Washington, D.C.

In our management letter of April 1, 1974, we recommended that the Director, Office of Audit, Department of Agriculture, plan for periodic reviews of the Bank. Although the Office of Audit did not review the Bank's operations during fiscal year 1975, the Office does plan to review areas of the Bank's operations in fiscal year 1976. *DLG 01128*

We made our audit in accordance with generally accepted auditing standards and included such tests of the Bank's accounting records and financial transactions and such other auditing procedures as we considered necessary.

OPINION ON FINANCIAL STATEMENTS

Rural Telephone Bank officials prepared the financial statements, schedules 1 through 3, and the notes to the financial statements.

Public Law 92-12 (85 Stat. 31) authorizes the Bank to use Department of Agriculture personnel and facilities at no cost. Accordingly, the Bank's reported operating expenses did not include these costs, which were primarily for REA and Office of the General Counsel personnel and facilities.

Under provisions of the same law, the Bank obtains funds from the United States in exchange for class A stock. The Bank pays the Government, from income, a return of 2 percent a year on the funds provided by the sale of this stock when actually used. The return to the Government on these funds was \$2,318,421 for fiscal year 1975 and \$1,519,959 for fiscal year 1974. It is estimated that these funds cost the Government about \$7,484,943 and \$4,856,373 in fiscal years

1975 and 1974, respectively. Since the Bank is required to lend money at its cost-of-money rate, the interest rates to Bank borrowers were subsidized by \$5,166,522 and \$3,336,414 in fiscal years 1975 and 1974, respectively. Without this subsidy, many borrowers may not qualify for Bank loans. These borrowers would then be eligible for REA-insured loans which involve greater average subsidies and a higher overall cost to the Government.

The Bank has classified its borrowings from the U.S. Treasury as a long-term liability. Application of the Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 14.3) requires that Treasury borrowings shall be classified as part of the Federal investment until repaid or otherwise liquidated.

In our opinion, except for the classification of borrowings from the U.S. Treasury discussed above, the financial statements, schedules 1 through 3, present fairly the financial position of the Rural Telephone Bank at June 30, 1975 and 1974, and the results of its operations and the changes in financial position of the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

RURAL TELEPHONE BANK
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1975 AND 1974

	<u>ASSETS</u>	
	June 30, 1975	June 30, 1974
CASH:		
With U. S. Treasury and on hand	\$ 4,660,227	\$ 402,427
INVESTMENTS: (Note 1B and 2)		
In U.S. Gov't securities at amortized cost	7,405,064	10,964,097
Accrued interest on securities	<u>137,787</u>	<u>209,557</u>
Total investments	7,542,851	11,173,654
LOANS RECEIVABLE: (Note 1C and 3)		
Loans receivable	273,475,492	144,133,179
Accrued interest on loans	<u>1,546,524</u>	<u>1,037,068</u>
	275,022,016	145,170,247
Less: Allowance for possible losses (Note 1D)	<u>197,000</u>	<u>69,000</u>
Net loans receivable	274,825,016	145,101,247
OTHER PREPAYMENTS AND DEFERRED CHARGES	<u>521</u>	<u>998</u>
Total assets	<u>\$287,028,615</u>	<u>\$156,678,326</u>
	<u>LIABILITIES AND EQUITY</u>	
LIABILITIES:		
Current:		
Accounts payable	\$ 4,542	\$ 391
Accrued interest on loans payable to U.S. Treasury	<u>3,839,951</u>	<u>819,580</u>
Total current liabilities	3,844,493	819,971
Long-term:		
Loans payable to U.S. Treasury (Note 4)	<u>132,070,000</u>	<u>49,422,000</u>
Total liabilities	135,914,493	50,241,971
EQUITY OF THE UNITED STATES GOVERNMENT		
Class A stock	120,000,000	90,000,000
EQUITY OF THE PUBLIC:		
Capital stock:		
Class B stock -		
Total subscriptions	26,560,735	18,932,745
Less: Unissued	<u>5,921,930</u>	<u>7,641,000</u>
Subscriptions paid	20,638,805	11,291,745
Patronage refund	<u>660,391</u>	<u>114,517</u>
Total Class B stock issued	21,299,196	11,406,262
Class C stock	<u>545,000</u>	<u>533,000</u>
Total capital stock issued	21,844,196	11,939,262
Patronage capital - current (Note 1E)	5,345,357	3,705,567
Reserve for contingency	<u>3,924,569</u>	<u>791,526</u>
Total equity of the public	31,114,122	16,436,355
Total liabilities and equities	<u>\$287,028,615</u>	<u>\$156,678,326</u>

(The accompanying notes are an integral part of this statement.)

RURAL TELEPHONE BANK
 COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND PATRONAGE CAPITAL
 FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	<u>June 30, 1975</u>	<u>June 30, 197</u>
INCOME:		
Interest earned on loans	\$12,930,194	\$5,458,690
Interest earned on investments	<u>780,497</u>	<u>681,040</u>
Total income	13,710,691	6,139,730
EXPENSES:		
Operating Costs Incurred:		
Interest expense on funds borrowed from U. S. Treasury	5,878,337	819,580
Directors' fees	11,300	8,500
Directors' travel	10,825	7,150
Postage	477	545
GAO Audit	15,000	15,000
Provision for possible losses (Note 1D)	128,000	57,800
Amortization of preoperating costs	-0-	4,814
Miscellaneous	<u>2,974</u>	<u>815</u>
Total expenses	<u>6,046,913</u>	<u>914,204</u>
NET INCOME FOR THE PERIOD	7,663,778	5,225,526
Less: Provisions for return on Class A stock	<u>2,318,421</u>	<u>1,519,959</u>
PATRONAGE CAPITAL FOR THE PERIOD (NOTE 1E)	<u>5,345,357</u>	<u>3,705,567</u>
PATRONAGE CAPITAL AND RESERVE FOR CONTINGENCIES -		
BEGINNING OF YEAR	4,497,093	932,043
Less: Class C stock cash dividend	26,650	21,000
Patronage refund in form of Class B stock	545,874	114,517
Adjustment to increase allowance for losses for under accrual in fiscal year 1973	<u>-0-</u>	<u>5,000</u>
RESERVE FOR CONTINGENCIES - END OF YEAR	<u>3,924,569</u>	<u>791,526</u>
PATRONAGE CAPITAL AND RESERVE FOR CONTINGENCIES	<u>\$ 9,269,926</u>	<u>\$4,497,093</u>

(The accompanying notes are an integral part of this statement.)

RURAL TELEPHONE BANK
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 1975, AND 1974

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
FUNDS PROVIDED:		
Income:		
Interest earned: Loans	\$ 12,930,194	\$ 5,458,690
Investments	780,497	681,040
Sale of stock: Class A	30,000,000	30,000,000
Class B	9,347,060	5,691,550
Class C	12,000	8,000
Borrowings from U. S. Treasury	82,648,000	49,422,000
Principal collected on loans	535,553	204,556
Net change in U. S. Government Securities at amortized cost	<u>3,559,033</u>	<u>(4,069,268)</u>
	<u>139,812,337</u>	<u>87,396,568</u>
FUNDS APPLIED:		
Operating expenses (less allowance for bad debts and amortization of preoperating cost)	5,918,913	851,590
Advances on loan commitments	129,877,866	98,708,633
Return on Class A stock	2,318,421	1,519,959
Dividend on Class C stock	26,650	21,000
	<u>138,141,850</u>	<u>101,101,182</u>
INCREASE (DECREASE) IN FINANCIAL POSITION	<u>\$ 1,670,487</u>	<u>\$(13,704,614)</u>
ANALYSIS OF NET CHANGE IN FINANCIAL POSITION:		
Increase (decrease) - other assets:		
Cash	\$ 4,257,800	\$(14,144,237)
Accrued interest on U. S. Gov't Securities	(71,770)	84,105
Accrued interest on loans	509,456	802,350
Prepaid and deferred items	(477)	998
	<u>4,695,009</u>	<u>(13,256,784)</u>
Increase (decrease) - other liabilities		
Accounts payable	4,151	(371,750)
Accrued interest on loans payable to U. S. Treasury	<u>3,020,371</u>	<u>819,580</u>
	<u>3,024,522</u>	<u>447,830</u>
NET CHANGE IN FINANCIAL POSITION	<u>\$ 1,670,487</u>	<u>\$(13,704,614)</u>

RURAL TELEPHONE BANK
NOTES TO FINANCIAL STATEMENTS
June 30, 1975 and 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. General - The accounting and reporting policies of the Rural Telephone Bank conform in all material respects with the accounting principles, standards and related requirements prescribed by the Comptroller General of the United States, and requirements of the Office of Management and Budget, the Department of the Treasury, and the Government Corporation Control Act, and other applicable legislation.
- B. Investments - U.S. Government securities are stated at cost adjusted for amortization of premiums and discounts, both computed by the straight-line method. The amortization of premiums and discounts are debited and credited, respectively, to interest earned on investments.
- C. Loans Receivable - The notes evidencing indebtedness of the Bank's loans are generally for 35 years and are secured by a first mortgage, which also secures equally and ratably notes evidencing indebtedness on REA loans. Interest earned on loans is credited to revenue on an accrual basis based upon the principal amount outstanding.
- D. Allowance for Possible Losses on Loans and Interest Receivable - The 1969 U. S. Treasury tax formula that commercial banks reporting to the Federal Reserve System are required to use in making provisions for possible loan losses is being used to determine quarterly adjustments to the allowance for possible losses on loans and interest receivable. The allowance for possible losses is adjusted quarterly to 0.006 percent of the loans outstanding at the end of each quarter multiplied by the number of quarters elapsed since June 30, 1973, until a maximum allowance of 0.6 percent of loans and interest receivable has been attained. Quarterly adjustments to increase the ratio of the allowance to outstanding loans and interest receivable are charged to expense.
- E. Patronage Capital - Patronage capital consists of net income in excess of the amount necessary to pay a 2 percent per annum return on Class A stock into miscellaneous receipts of the U. S. Treasury and any dividends paid to holders of Class C stock. Patronage capital is distributed as follows in accordance with the provisions of Section 8.2 of Article VIII of the Bank's bylaws:

BEST DOCUMENT AVAILABLE

BEST DOCUMENT AVAILABLE

- (1) Reserve for Contingency - After the close of each fiscal year not less than 10 percent of the patronage capital, the amount to be determined by the board of directors, shall be placed in a contingency reserve until such time as this reserve shall equal at least 50 percent of the outstanding capital stock. The reserve shall be used to offset and liquidate operating losses and deficits in a systematic manner as determined by the board of directors.
- (2) Patronage Refunds - The balance of patronage capital shall be distributed to each holder of Class B stock as patronage refunds in the form of Class B stock as soon as practicable after the close of each fiscal year.

2. INVESTMENTS

The market value of U. S. Government securities at June 30, 1975, and 1974, was \$7,173,111 and \$10,577,491, respectively. Bid price quotations published by the First National City Bank, New York, N. Y., were used in determining market value. The bank intends to hold these securities to maturity.

3. LOANS RECEIVABLE

Loan commitments and loans receivable as of June 30, 1975, and 1974 were as follows:

	1975	1974
Cumulative loan commitments	\$557,532,080	\$397,344,290
Unadvanced on commitments	283,303,322	252,993,398
Cumulative advances on commitments	274,228,758	144,350,892
Cumulative principal repayments	753,266	217,713
Loans receivable	\$273,475,492	\$144,133,179

4. LOANS PAYABLE TO U. S. TREASURY

On July 26, 1973, the Governor executed an open end note payable to the Secretary of the Treasury to cover loans to be obtained under section 407 of the Rural Electrification Act, as amended (7 U.S.C. 947). Advances on the note in each fiscal year are to be repaid within fifty years from the close of that fiscal year at the rate of interest established by the Secretary of the Treasury for the calendar month in which each advance is made. Repayments may be made at any time before maturity with application to the oldest advance outstanding. The loans payable to U. S. Treasury by interest rate as of June 30, 1975, and their maturity dates were as follows:

Interest Rate	Amount	Maturity	
		June 30, 2024	June 30, 2025
7.250	\$ 5,071,000	\$ 5,071,000	\$ -0-
7.375	7,667,000	7,667,000	-0-
7.500	8,892,000	8,892,000	-0-
7.625	10,461,000	10,461,000	-0-
7.875	20,191,000	9,466,000	10,725,000
8.000	9,278,000	-0-	9,278,000
8.125	23,194,000	7,865,000	15,329,000
8.250	10,367,000	-0-	10,367,000
8.375	23,498,000	-0-	23,498,000
8.500	8,229,000	-0-	8,229,000
8.750	5,222,000	-0-	5,222,000
Total	<u>\$132,070,000</u>	<u>\$49,422,000</u>	<u>\$82,648,000</u>

RURAL TELEPHONE BANK BOARD OF DIRECTORS

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
EX OFFICIO MEMBERS:		
David A. Hamil, Administrator, REA	May 1974	Present
E. A. Jaenke, Governor, Farm Credit Administration	May 1971	Oct. 1974
W. M. Harding, Governor, Farm Credit Administration	Nov. 1974	Present
MEMBERS REPRESENTING THE DEPARTMENT OF AGRICULTURE:		
Carroll G. Brunthaver, Assistant Secretary of Agriculture	June 1972	Jan. 1974
Dr. Thomas K. Cowden, Counselor to the Secretary of Agriculture (note a)	May 1974	Present
William W. Erwin, Assistant Secretary of Agriculture	July 1973	Aug. 1975
Dr. Eric Thor, Administrator, Farmer Cooperative Service	Sept. 1971	Aug. 1973
Clayton K. Yeutter, Assistant Secretary of Agriculture	June 1974	Aug. 1975
MEMBERS REPRESENTING THE PUBLIC:		
Mrs. Paula F. Hawkins, Commissioner, Florida Public Service Commission	July 1973	Present
Charles H. Pillard, president, International Brotherhood of Electrical Workers	Sept. 1971	Present
MEMBERS REPRESENTING COOPERATIVE-TYPE ENTITIES:		
Glenn W. Bergland, Manager, Winnebago Cooperative Telephone Association, Thompson Iowa	Sept. 1971	Aug. 1974

	Tenure of office	
	<u>From</u>	<u>To</u>
MEMBERS REPRESENTING COOPERATIVE- TYPE ENTITIES (continued):		
Roy C. Boecher, manager, Pioneer Telephone Coopera- tive, Inc., Kingfisher, Okla- homa	Sept. 1972	Present
B. Maynard Christenson, president, Dakota Coopera- tive Telephone Company, Inc., Irene, South Dakota	Sept. 1971	Dec. 1974
Harold C. Ebaugh, manager, Triangle Telephone Coop- erative Association, Inc., Havre, Montana	Feb. 1975	Present
John A. McAllister, president, West Carolina Rural Tele- phone Cooperative, Inc., Abbeville, South Carolina	Sept. 1974	Present
MEMBERS REPRESENTING COMMERCIAL- TYPE ENTITIES:		
Glenn W. Bergland, president, Lake Mills Telephone Com- pany, Lake Mills, Iowa	Sept. 1974	Present
Mrs. Jean S. Brandli, president, Coosa Valley Telephone Company, Pell City, Alabama	Sept. 1971	Sept. 1974
Arndon O. Haynes, president, Mashell Telephone Company, Inc., Eatonville, Washing- ton	Sept. 1972	Present
Harold G. Payne, president, Telephone Utilities of Pennsylvania, Inc., and Manager, Brookville Tele- phone Company, Export, Pennsylvania	Sept. 1971	Present

a/Dr. Cowden also served from September 1971 to February 1973.

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