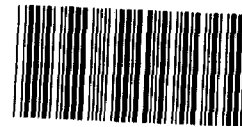


December 1988

FINANCIAL AUDIT

Rural Electrification  
Administration's  
Financial Statements  
for 1987



137612

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**Accounting and Financial  
Management Division**

B-231262

December 23, 1988

The Honorable Richard E. Lyng  
The Secretary of Agriculture

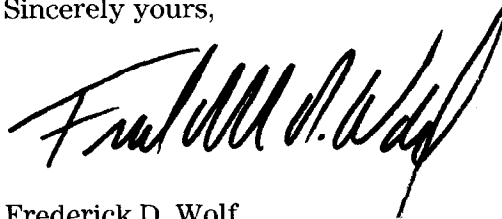
Dear Mr. Secretary:

This report presents the results of our examination of the financial statements of the Rural Electrification Administration (REA) for the fiscal year ended September 30, 1987. Our report describes restrictions on the scope of our examination, the result of which was to limit our opinion to REA's statement of financial position as of September 30, 1987. This is the first year that REA's financial statements have been subjected to an audit in accordance with generally accepted government auditing standards.

The report contains separate reports on REA's system of internal accounting controls and on its compliance with laws and regulations. The report on REA's system of internal accounting controls discloses no material weaknesses. The report on compliance with laws and regulations discloses no violations for the transactions tested. The report does note, however, that REA was unable to guarantee the minimum amount of loans in fiscal year 1987, in accordance with 7 U.S.C. 936, due to insufficient demand.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Administrator of the Rural Electrification Administration, and interested congressional committees. Copies will be made available to others upon request.

Sincerely yours,

Frederick D. Wolf  
Director

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## Abbreviation

REA      Rural Electrification Administration



**Accounting and Financial  
Management Division**

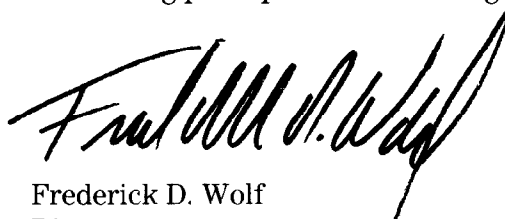
B-231262

To the Administrator  
Rural Electrification Administration

We have examined the accompanying statement of financial position of the Rural Electrification Administration (REA), an agency of the Department of Agriculture, as of September 30, 1987, and the related statements of operations and changes in funds with U.S. Treasury for the fiscal year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraph. This is the first year that REA's financial statements have been subjected to an audit in accordance with generally accepted government auditing standards. In addition to this report on our examination of REA's financial statements for fiscal year 1987, we are also reporting on our study and evaluation of REA's internal accounting controls and on its compliance with laws and regulations.

Since certain information with respect to the valuation of net loans receivable was not readily available, it was not practical for us to determine the reasonableness of net loans receivable as of October 1, 1986, or whether the related expense was recorded in the proper accounting period. Accordingly, we do not express an opinion on the accompanying statements of operations and of changes in funds with U.S. Treasury for the fiscal year ended September 30, 1987, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying statement of financial position presents fairly the financial position of the Rural Electrification Administration as of September 30, 1987, in conformity with generally accepted accounting principles for federal agencies.

Frederick D. Wolf  
Director

June 1, 1988



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# Report on Internal Accounting Controls

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We have examined the financial statements of the Rural Electrification Administration (REA) for the fiscal year ended September 30, 1987, and have issued our report thereon. This report pertains to our study and evaluation of the system of internal accounting controls for the fiscal year ended September 30, 1987.

As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the agency's financial statements. For the purpose of this report, we have classified the significant internal accounting controls into the following categories:

- loans,
- treasury,
- payroll, and
- financial reporting.

Because REA's operations consist mostly of low-volume, high-dollar transactions, it was more efficient to perform substantive audit tests to substantiate the balances of significant accounts associated with each of the above control categories. Substantive audit tests can also serve to identify weaknesses within the system of internal accounting controls that could result in errors material to the financial statements taken as a whole.

REA's management is responsible for establishing and maintaining a system of internal accounting controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over agency assets. Because of inherent limitations in any



system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

REA evaluated its system of internal accounting and administrative controls in accordance with the Federal Managers' Financial Integrity Act of 1982. REA reported to the Secretary of Agriculture in November 1987 that its internal control system in effect during fiscal year 1987, taken as a whole, provided reasonable assurance that REA's objectives were achieved within the limits described in the preceding paragraph. That report also identified a number of items that warranted corrective actions, stated what corrective actions had been taken or were being taken, and indicated the completion or expected completion dates. We reviewed REA's evaluation and considered it in conducting our study and evaluation and in determining the nature, timing, and extent of audit tests.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on REA's system of internal accounting controls taken as a whole or on the categories of controls identified in the second paragraph. Our audit tests did not disclose any conditions which we believe could result in errors or irregularities in amounts material to REA's financial statements which would not be promptly detected and corrected.

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# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Rural Electrification Administration (REA) for the fiscal year ended September 30, 1987, and have issued our report thereon. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations and reviews of GAO and Office of Inspector General reports, as we considered necessary in the circumstances. This report pertains to our review of compliance with laws and regulations for the year ended September 30, 1987.

Our review of compliance with laws and regulations, made for the limited purpose described in the preceding paragraph, does not necessarily cover all laws and regulations that REA is required to comply with. Accordingly, we are expressing an opinion only with respect to the transactions tested. In our opinion, REA complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

In connection with our examination, nothing came to our attention that caused us to believe that REA was not in compliance with the terms and provisions of laws and regulations for those transactions not tested. However, we noted one issue that we believe should be highlighted.

The continuing resolution for fiscal year 1987 (Public Law 99-591) provided that the REA commitment to guarantee loans under 7 U.S.C. 936 shall be at least \$933 million but not more than \$2.1 billion during fiscal year 1987. However, REA granted guarantees of only \$175 million during the fiscal year. Our audit tests determined that of the amount of guarantees applied for during fiscal year 1987, only \$3 million was denied. Thus, REA was not able to guarantee the minimum amount of loans provided for in the continuing resolution since the demand for guaranteed loans fell far short of the minimum requirement.

The issue discussed above did not affect the nature, timing, and extent of audit tests to be applied in our examination and, accordingly, does not affect our opinion on REA's statement of financial position.



# Financial Statements

## Statement of Financial Position

As of September 30, 1987  
(Dollars in thousands)

**Assets:**

Loans, net of allowance for loan losses of \$972,865 (note 2)	\$36,430,790
Accrued interest receivable	128,747
Funds with U.S. Treasury	83,677
Accounts receivable	6,351
Other assets	<u>2,365</u>

Total Assets \$36,651,930

**Liabilities and Equity:**

Intragovernmental debt (note 3)	\$34,085,806
Accrual for probable losses on guaranteed loans	291,841
Accrued interest payable (note 3)	19,366
Other liabilities	<u>2,922</u>

Total Liabilities \$34,399,935

**Investment of Others:**

Class B stock, \$1 par value, 165,320,000 shares issued and outstanding (note 4)	\$165,320
Class C stock, \$1000 par value, 2,949 shares issued and outstanding (note 4)	<u>2,949</u>

Total Investment of Others \$168,269

**Equity of the U.S. Government:**

Unexpended appropriations:	
Undelivered orders	\$ 1,038
Invested capital	1,559
Donated capital (note 5)	477,240
Restricted capital (note 6)	76,781
Cumulative results of operations (note 7)	<u>1,527,108</u>

Total Equity of the U.S. Government \$ 2,083,726

Total Liabilities, Investment of Others, and Equity \$36,651,930

The accompanying notes are an integral part of these financial statements.

Statement of Operations

For the Fiscal Year Ended September 30, 1987  
(Dollars in thousands)

Interest Income:	
Interest on loans	\$ 2,696,042
Interest earned on Funds with U.S. Treasury	<u>7,467</u>
Total Interest Income	2,703,509
Interest Expense:	
Interest on borrowings	<u>(2,524,728)</u>
Net Interest Income	\$ <u>178,781</u>
Provision for Losses on:	
Insured loans (note 2)	(545,535)
Guaranteed loans	<u>(291,841)</u>
Total Provision for Losses	<u>(837,376)</u>
Net Interest Income and Provision for Losses	\$ <u>(658,595)</u>
Other Income and (Expenses):	
Appropriations realized	25,983
Prepayment penalty income	1,442
Other Income	58
Other Expenses	<u>(26,174)</u>
Net Other Income and Expenses	\$ <u>1,309</u>
Loss Before Discounted Loan Prepayments	\$ (657,286)
Loss on Discounted Loan Prepayments (note 8)	\$ <u>(299,015)</u>
Net Loss from Operations	\$ <u>(956,301)</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statement of Changes in Funds With U.S. Treasury

For the Fiscal Year Ended September 30, 1987  
(Dollars in thousands)

Funds from Operating Activities:

Interest received	\$ 2,368,479
Interest paid	(2,518,322)
Appropriations received	28,710
Appropriations expended	(28,710)
Prepayment premiums received	1,442
Administrative expenses paid and other, net	974

Net Funds Applied from Operating Activities \$ (147,427)

Funds from Investing Activities:

Collections on loans	\$ 1,798,503
Advances on loans	(1,390,438)
Overpayments by borrowers	1,399
Refunds paid borrowers	(1,314)
Proceeds from sale of acquired property	407
Proceeds from maturing investments	128

Net Funds Provided from Investing Activities \$ 408,685

Funds from Financing Activities:

Repayments on Federal Financing Bank borrowings	\$(1,473,872)
Borrowings from Federal Financing Bank	1,225,041
Payments on U.S. Treasury borrowings	(325,773)
Borrowings from U.S. Treasury	319,774
Proceeds from issuance of stock	28,808
Reimbursements for losses	21,591
Dividends paid	(9,546)

Net Funds Applied from Financing Activities \$ (213,977)

Net Increase in Funds with U.S. Treasury \$ 47,281

Funds with U.S. Treasury, Beginning of Year \$ 36,396

Funds with U.S. Treasury, End of Year \$ 83,677

(continued)

Financial Statements

Reconciliation of Net Loss to Net Funds  
Applied From Operating Activities:

Net Loss	<u>\$(956,301)</u>
Adjustments to reconcile net loss to net funds applied from operating activities:	
Loss on discounted loan prepayments	299,015
Provision for losses on insured loans	545,535
Provision for losses on guaranteed loans	291,841
Changes in Assets and Liabilities:	
Excess of interest accrued over interest received	(327,621)
Decrease in accounts payable and other liabilities	(1,119)
Increase in unapplied receipts	2,609
Excess of interest paid over interest accrued on borrowings	(1,061)
Increase in accounts receivable	<u>(325)</u>
Total Adjustments	\$ 808,874
Net Funds Applied from Operating Activities	<u>\$(147,427)</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1. Significant Accounting Policies

A. Entity

In fulfilling its mission to assist in financing electric and telephone organizations serving rural areas, the Rural Electrification Administration maintains one general fund and three revolving funds, including the revolving fund of the Rural Telephone Bank, a government corporation. The financial statements include all funds for which REA is responsible and are presented on the accrual basis of accounting as required by the GAO Policy and Procedures Manual for Guidance of Federal Agencies (title 2). All significant intra-agency balances and transactions have been eliminated.

B. Recognition of Financing Sources and Interest Income

REA finances its loan programs through available receipts and, when necessary, by long-term and interim Treasury and Federal Financing Bank (FFB) borrowings. (See also note 3.) Revolving funds were established in the early 1970s to maintain these programs with the intention of making them self-sustaining. However, REA does receive annual appropriations for administrative expenditures; cable television program losses; and interest subsidies and losses, which, by law, are not considered incurred by the rural electric and telephone programs.

Appropriations are provided by the Congress on an annual basis to fund the general fund and other expenses such as personnel compensation and fringe benefits, rents, communications, utilities and 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 currently while expenditures for capital and other long-term assets are capitalized and are not recognized as expenses until they are consumed in REA's operations. Financing sources for these expenses, which derive from both current- and prior-year appropriations, are recognized on this same basis.

Interest income on loans is accrued at the contractual rate on the outstanding principal amount.

C. Loan Receivables and Allowance for Losses

REA makes insured and guaranteed loans from the Rural Electrification and Telephone Revolving Fund (RETRF), the Rural Telephone Bank (RTB), and the Rural Communications



Development Fund (RCDF). The RETRF insured loan program, authorizes the Administrator of REA to grant loans to rural electric and telephone utilities. These loans are repaid over 35 years with principal amortization generally beginning 3 years after the date of the note.

The interest rate on loans made prior to May 11, 1973, was 2 percent. However, since 1973, the interest rate has been 5 percent, although some loans may still be made at 2 percent in cases involving extreme financial hardship.

REA makes certain loans through financing provided by FFB. Interest rates on these loans are determined at the time funds are advanced and are based upon the cost of money to FFB, plus 0.125 percent. FFB loans mature at varying periods between 2 and 7 years, or at 35 years. Loans which mature in 2 to 7 years generally may be extended for a maximum of 35 years.

RTB's insured loan program was established as a supplemental source of financing for the growing capital needs of rural telephone utilities. RTB lends at rates approximately equal to its cost of money.

RCDF insured or guaranteed loans to both cooperative and commercial borrowers for community antenna television services and facilities. RCDF has not made any new loans since 1981.

Since 1984, several of REA's major electric program borrowers have begun to experience severe financial difficulties due to their participation in the financing of large power plants, some of which are nuclear. During construction of a number of projects, cost overruns and delays in operation have occurred. In addition, load growth and economic conditions have substantially changed since REA's initial loan review. Where states do not allow construction work-in-progress costs for determining electric rates, the owners cannot obtain rate increases to meet revenue requirements and debt service payments until the plants become operational. Furthermore, nuclear power has created unrest among consumers, causing substantial difficulty for owners in obtaining a license for the operation of nuclear plants. In some cases, nuclear plants sit idle or are abandoned. Until the plants become operational, no revenue can be generated and, therefore, some borrowers have not met their debt service requirements. A few borrowers have filed for bankruptcy due to their severe financial distress.

In fiscal year 1987, REA significantly increased the allowance for loss account in order to adequately reflect net loan receivables due to the downward trend in market conditions. Because the increase pertaining to the current year could not be distinguished from amounts pertaining to

prior years, the full amount of the adjustment was recognized in the current year. Prior-year effects on government equity could not be determined. As of September 30, 1987, the allowance for losses account amounted to \$972,865,000.

Loans are carried at the principal amount outstanding less an allowance to reflect their ultimate collectibility. REA bases its loan loss estimates on delinquency rates, current economic conditions, borrowers' credit histories, and borrowers' financial conditions.

D. Guaranteed Loans

Estimated losses on anticipated defaults of guaranteed loans are recognized as expenses and a corresponding accrual for probable losses is established. This liability represents the estimated cost of defaults for those guaranteed loans which will not be repaid based on (1) prior delinquency experience and (2) management's assessment of the borrower's financial condition. REA established an accrual for probable losses on guaranteed loans in fiscal year 1987 due to the downward trend in market conditions. (See C above.) Again, because the amount of the accrual pertaining to the current year could not be distinguished from amounts pertaining to prior years, the full amount of the accrual was recognized in the current year. Prior-year effects on government equity could not be determined. As of September 30, 1987, the accrual for probable losses on guaranteed loans amounted to \$291,841,000.

As of September 30, 1987, REA is contingently liable for \$1,478,357,000 in guaranteed loans (excluding FFB loans).

E. Certificates of Beneficial Ownership

Certificates of Beneficial Ownership (CBOs) are agency-backed securities which represent FFB's participation in a pool of REA's insured loan receivables. The issuance of a CBO is recorded as a borrowing and the corresponding interest is expensed.

F. Interest Earned on Funds with U.S. Treasury

Each of the revolving funds earns interest on its cash held in Treasury if the fund has outstanding borrowings with Treasury and owes interest on these borrowings. The amount of interest earned on cash per month is limited to the interest owed on Treasury borrowings. When interest is earned, interest income is recognized and interest payable on Treasury borrowings is reduced by the amount earned, in lieu of actually receiving cash for the interest earned.

G. Intragovernmental Financial Activities

REA's financial activities interact with and are dependent upon those of the federal government as a whole. Thus, REA's financial statements do not reflect the results of all financial decisions and activities applicable to REA's operations, as if it were a stand-alone entity.

REA's financial statements are not intended to report the agency's proportionate share of the federal deficit or of public borrowing, including interest thereon. Financing for budget appropriations reported on REA's statement of operations and changes in funds with U.S. Treasury could derive from tax revenues or public borrowing or both; the ultimate source of this financing, whether it be tax revenues or public borrowing, has not been specifically allocated to REA.

During fiscal year 1987, the majority of REA's employees participated in the contributory Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), to which REA made matching contributions. Such contributions are recognized as expenses in the statement of operations. However, REA does not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees since this data is only reported in total by the Office of Personnel Management.

Note 2. Loans Receivables and Allowance for Losses

As of September 30, 1987, Loan Receivables and Allowance for Losses amounted to (dollars in thousands):

	<u>Loan amount</u>	<u>Allowance</u>	<u>Net receivable</u>
RETRF:			
Insured	\$14,741,580	\$109,246	\$14,632,334
FFB	21,196,490	856,824	20,339,666
RTB	1,446,603	5,295	1,441,308
RCDF	<u>18,982</u>	<u>1,500</u>	<u>17,482</u>
Total	<u>\$37,403,655</u>	<u>\$972,865</u>	<u>\$36,430,790</u>

**Financial Statements**

The activity in the Allowance for Losses for the fiscal year ended September 30, 1987, is as follows (dollars in thousands):

	Beginning balance <u>10-1-86</u>	Loans written off, net	Provision for loan losses	<u>Recoveries</u>	Ending balance <u>9-30-87</u>
RETRF:					
Insured	\$ 35,926	0	\$ 73,320	0	\$109,246
FFB	385,000	0	471,824	0	856,824
RTB	4,904	0	391	0	5,295
RCDF	<u>2,205</u>	\$(694)	<u>0</u>	\$(11)	<u>1,500</u>
Total	<u>\$428,035</u>	<u>\$(694)</u>	<u>\$545,535</u>	<u>\$(11)</u>	<u>\$972,865</u>

As of September 30, 1987, loans that have been authorized but not yet disbursed consist of (dollars in thousands):

RETRF	\$6,875,334
RTB	792,257
RCDF	<u>1,799</u>
	<u>\$7,669,390</u>

Note 3. Intragovernmental Debt

As of September 30, 1987, borrowings for REA consist of the following (dollars in thousands):

FFB Borrowings:

Direct Loans made through FFB financing	\$21,196,490	
Certificates of Beneficial Ownership (CBOs)	\$ <u>4,241,207</u>	\$25,437,697

Treasury Borrowings:

RETRF, due 6/30/1993 - 12/31/2016, noninterest bearing	\$ 7,864,743	
RTB, due 6/30/2024 - 6/30/2036, interest accrues at 7.25 percent - 14.625 percent	758,762	
RCDF, due 9/30/2016 - 9/30/2021, interest accrues at 10.5 percent - 15.14 percent	\$ <u>24,604</u>	\$ <u>8,648,109</u>

Total \$34,085,806

Less: Estimated current portion due within 1 year (1,911,810)

Total Noncurrent Borrowings \$32,173,996

REA borrows funds from FFB to finance certain loans. These loans serve as collateral for the FFB borrowings. Because REA does not maintain amortization tables, the current portion of FFB borrowings is estimated based on the most recent billing information available. As of September 30, 1987, accrued interest on these FFB borrowings amounted to \$458,000.

In 1987, the method of recording CBOs was changed to conform with generally accepted accounting principles for federal agencies, which requires the issuance of CBOs to be recorded as a borrowing and corresponding interest to be expensed. REA has CBOs with maturity dates ranging from December 31, 1987, to March 31, 2016. Interest rates on CBOs vary from 7.045 percent to 15.325 percent. As of September 30, 1987, there was no accrued interest outstanding on CBOs. Accrued interest on U.S. Treasury borrowings outstanding as of September 30, 1987, amounted to \$18,908,000.

Note 4. Investment of Others - Capital Stock - Rural Telephone Bank

Class B stock is issued at a par value of \$1 per share and must be purchased at par by RTB borrowers in amounts equal to 5 percent of the approved loan amount, excluding the amount borrowed to purchase such stock. Class B stock is purchased by the borrower at the time the first loan advance is made, either by cash or as part of the first loan advance.

Class B stock is nontransferable, except in connection with the assumption by the transferee with the approval of the Rural Telephone Bank Governor of all or part of the transferor's loan from RTB. A borrower, upon retiring debt with RTB, may exchange B stock for C stock. Otherwise, the borrower retains possession. Class B stock can be redeemed and returned only after all shares of Class A stock, which is owned by the government, have been redeemed and retired. Class A stock is to be redeemed as soon as practicable after September 30, 1995, but not to the extent that RTB's Board determines that such retirement will impair operations of RTB. (See note 5 for further details on Class A stock.) Holders of Class B stock receive patronage capital refunds. These refunds consist of the remaining balance of Patronage Capital Assignable in the form of additional shares of Class B stock. (See note 6.)

Due to the uncertainty of a borrower drawing down the entire approved loan amount, subscriptions receivable for Class B stock are not shown on the balance sheet. When RTB makes the first advance under each loan, it issues the stock applicable to the total loan and charges loans receivable for the full amount of the loan commitment. In the event of rescission of part of the loan commitment subsequent to issuance of the stock, RTB rescinds the applicable portion of Class B stock and reduces loans receivable accordingly. Subscriptions receivable amounted to \$26,456,000 for the fiscal year ended September 30, 1987.

Class C stock is issued at a par value of \$1,000 per share to borrowers, corporations, and public entities eligible to borrow or by organizations controlled by such borrowers, corporations, and public bodies. Holders of Class C stock receive dividends as determined by the Board of Directors.

Note 5. Donated Capital

Public Laws 92-12 and 97-98 authorize the Congress to appropriate no more than \$30 million per year to RETRF for the purchase of RTB Class A stock. By law, the Congress will continue to annually appropriate funds until such purchases equal \$600,000,000. During fiscal year 1987, REA received \$28,710,000 in donated capital. As of September 30, 1987, donated capital amounted to \$477,240,000. RTB Class A stock has been eliminated in combination.

Note 6. Restricted Capital - Rural Telephone Bank

After the close of each fiscal year, not less than 10 percent of the patronage capital, as determined by the Board of Directors, shall be placed in a contingency reserve until the reserve equals at least 50 percent of the outstanding capital (A, B, and C) stock. This reserve shall be used to offset and liquidate operating losses and deficits, as determined by the RTB Board of Directors. At September 30, 1987, restricted capital was \$76,781,000.

Note 7. Cumulative Results of Operations

Beginning balance, October 1, 1986	\$2,461,818,000
Fiscal Year Activity:	
Net results from operations	(956,301,000)
Reimbursement for losses	<u>21,591,000</u>
Ending balance, September 30, 1987	<u>\$1,527,108,000</u>

During fiscal year 1987, REA received appropriations of \$21,591,000 for reimbursement for interest subsidies and losses in accordance with Public Law 99-500. Reimbursement for interest subsidies and losses are offset against cumulative results of operations.

Note 8. Loss on Discounted Loan Prepayments

Public Law 99-509 allowed borrowers of RETRF insured loans to prepay such loans during fiscal year 1987 at the lesser of the outstanding principal balance due on the loan or the loan's present value discounted from the face value at maturity at the rate set by the Administrator. REA sustained losses on the prepayments of these loans during fiscal year 1987 of \$299,015,000.

Note 9. Reconciliation to Budget Report

The following schedule reconciles total expense as reported in the accompanying financial statement, "Statement of Operations," with negative outlays as reported in the Office of Management and Budget Report, SF-133, "Report on Budget Execution," as of September 30, 1987 (dollars in thousands):

**Financial Statements**

Reconciliation to Budget Report

**Total Expenses:**

Interest expense	\$ 2,524,728	
Provision for losses	837,376	
Other expenses	26,174	
Loss on discounted loan prepayments	<u>299,015</u>	\$ 3,687,293

**Budgetary Outlays Not Included As Expenses:**

Loans made	\$ 1,390,438	
Decrease in accounts payable and other liabilities	1,119	
Dividends paid	147	
Excess of interest paid over interest accrued on borrowings	1,061	
Other	<u>410</u>	\$ 1,393,175

**Items Not Requiring Outlays:**

Loss on discounted loan prepayments	\$ (299,015)	
Provision for loan losses	(545,535)	
Accrual for probable losses	(291,841)	
Increase in unapplied receipts	(2,609)	
Increase in accounts receivable	325	
Other	<u>(721)</u>	\$ (1,139,396)

**Offsetting Collections Credited:**

Interest received	\$ (2,368,479)	
Loan collections	(1,798,503)	
Proceeds from issuance of stock	(28,808)	
Reimbursement for losses	(20,000)	
Interest earned on Funds with U.S. Treasury	(7,467)	
Prepayment premiums received	(1,442)	
Proceeds from sale of acquired property	(407)	
Overpayments by borrowers, net of refunds	<u>(85)</u>	\$ (4,225,191)

**Net Receipts (Negative Outlays) \$ (284,119)**



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Penalty for Private Use \$300**

**First-Class Mail  
Postage & Fees Paid  
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