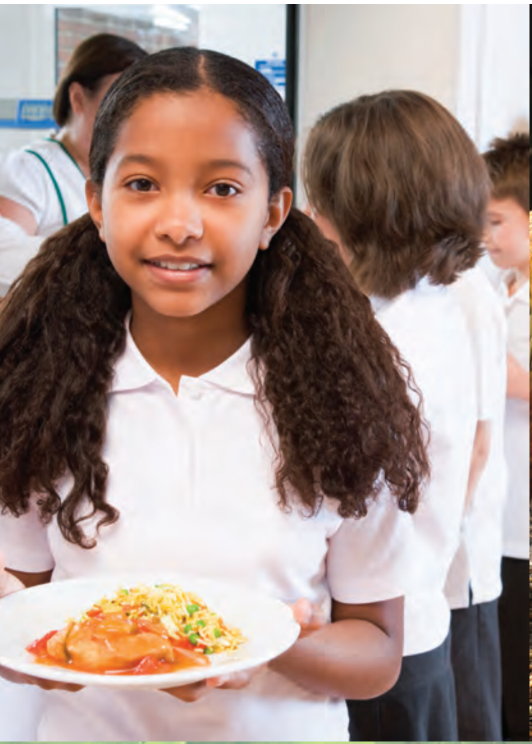
United States Department of Agriculture
Office of Inspector General

Rural Development's Financial Statements Audit for Fiscal Years 2012 and 2011



Audit Report 85401-0002-11

November 2012

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 13, 2012

AUDIT NUMBER: 85401-0002-11

TO: Dallas Tonsager
Under Secretary
Rural Development Name

ATTN: John L. Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2012 and 2011

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2012 and 2011. The report contains an unqualified opinion on the financial statements, as well as the results of our assessment of Rural Development's internal control over financial reporting and compliance with laws and regulations.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

Table of Contents

Executive Summary
Rural Development's Financial Statements for Fiscal Years 2012 and 2011 (Report 85401-0002-11)

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America, the assets, liabilities, and net position, net cost, changes in net position, and combined budgetary resources; (2) the internal control objectives over financial reporting were met; (3) Rural Development complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements; and (4) the information in Management's Discussion and Analysis was materially consistent with the information in the consolidated financial statements.

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

Results in Brief

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Development as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In the section entitled "Internal Control Over Financial Reporting," we report no significant deficiencies or material weaknesses. In the section entitled "Compliance and Other Matters," we note instances of noncompliance with the Improper Payments Elimination and Recovery Act of 2010.

Independent Auditor's Report

Dallas Tonsager
Under Secretary
for Rural Development

We have audited the accompanying consolidated balance sheets of Rural Development as of September 30, 2012 and 2011, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

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

Exhibit A of this report summarizes the current year status of prior year audit recommendations. Exhibit B provides an update to previously reported instances of noncompliance with laws and regulations, and exhibit C presents Rural Development's response in its entirety.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Development as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rural Development made certain reclassifications to prior year amounts to conform to current year presentation on the Combined Statement of Budgetary Resources. In accordance with new guidance effective for fiscal year 2012, as discussed in Note 1, the Combined Statement of Budgetary Resources was reclassified to better align with the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*. Also as discussed in Note 1, Rural Development reclassified Distributed Offsetting Receipts on the Combined Statement of Budgetary Resources.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A) and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. As a result of such limited procedures, we believe that the Required Supplementary Information related to the Schedule of Spending may not be consistently prepared, and controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information with regard to the categorization of information.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purposes described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

Significant deficiencies are deficiencies, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. Material weaknesses are deficiencies, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the consolidated financial statements being audited will not be prevented, or detected and corrected on a timely basis. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We reported no significant deficiencies or material weaknesses for fiscal year 2012. Certain other nonreportable matters involving internal control and its operations will be communicated to Rural Development management in a separate letter.

We did not identify any material weaknesses that were not disclosed in Rural Development's *Federal Managers' Financial Integrity Act of 1982 (FMFIA) Report on Management Control*.

Compliance and Other Matters

We performed tests of Rural Development's compliance, as described in the Responsibilities section of this report. The results of our tests of the Federal Financial Management Improvement Act of 1996 (FFMIA) disclosed no instances in which Rural Development's financial management systems did not substantially comply with FFMIA.

In Report 50024-0001-11, *U.S. Department of Agriculture, Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review*, issued March 14, 2012, the Office of Inspector General identified two instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA).[1] Specifically, evaluators of

---

[1] IPERA amended the "Improper Payments Information Act of 2002," Public Law 107-300.

Rural Development's Rental Assistance Program and Single Family Housing Guaranteed Loan Program (1) did not validate the payment amount for the Rental Assistance Program, and (2) did not adequately validate eligibility when they assessed whether the Single Family Housing Guaranteed Loan Program was a high-risk program.

Responsibilities

Management's Responsibilities

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

Auditor's Responsibilities

Our responsibility is to express an opinion on the fiscal years 2012 and 2011 consolidated financial statements of Rural Development based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rural Development's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

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

Gil H. Harden
Assistant Inspector General
for Audit
November 7, 2012

Abbreviations

FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
IPERA	Improper Payments Elimination and Recovery Act of 2010
MD&A	Management's Discussion and Analysis
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
TR	Technical Release

Exhibit A: Summary of Prior Year Recommendations

Report 85401-0001-11,[2] *Rural Development's Financial Statements for Fiscal Years 2011 and 2010,* dated November 10, 2011.

Finding 1: Management's Review and Documentation of Credit Reform Reestimate Processes Can Be Further Strengthened

Recommendation 1

Consistent with Technical Release (TR) 6,[3] ensure program staff adequately document the methods that support assumptions used for reestimates.

Recommendation 2

In coordination with program staff, ensure that procedures surrounding the reestimate calculations that are outside of the documented procedures and protocols in checklists or standard operation procedures are documented, reviewed and approved by management and that supporting documentation is retained and available for future examination.

Agency Response

Rural Development provided a combined response to address both recommendations. Rural Development concurred that improvement was needed in its documentation of assumptions used to predict future cash flows. Rural Development did not concur that management review of the assumptions used for fiscal year 2011 reestimates was inadequate. Rural Development stated that three or more management officials representing its Office of the Chief Financial Officer (OCFO) and the relevant program offices reviewed and approved all cash flow assumptions used in reestimates. Its management review focused on ensuring overall reasonableness of loan performance assumptions and any changes in assumption methodologies relative to prior years. However, Rural Development acknowledged that opportunities for improvement exist.

Status

Closed. Rural Development achieved management decision on February 21, 2012. For Recommendation 1, Rural Development provided OCFO with the cash flow model assumption documentation developed to be consistent with TR 6. OCFO withheld a determination on final action until completion of the fiscal year 2012 financial statement audit to ensure the credit reform recommendation was properly implemented. On November 6, 2012, OCFO accepted final action on Recommendation 1. This determination was made after issuance of the Office of

[2] Recommendations were made in Report 85401-0001-11, *Rural Development's Financial Statements for Fiscal Years 2011 and 2010,* November 10, 2011.

[3] TR 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies Under the Federal Credit Reform Act.*

Exhibit A: Summary of Prior Year Recommendations

Inspector General's fiscal year 2012 discussion draft report for audit 85401-0002-11, which reflected no significant deficiencies or material weaknesses related to credit reform. For Recommendation 2, Rural Development incorporated procedures into its Standard Operating Procedures to maintain cash flow model assumption documentation and update it on a yearly basis. On March 2, 2012, OCFO accepted final action and closed the recommendation.

Exhibit B: Status of Prior Year Noncompliance Finding

Report 85401-18-FM, *Rural Development's Financial Statements for Fiscal Years 2010 and 2009,* dated November 12, 2010.

Finding 3: Anti-Deficiency Act Violations

Reported Noncompliance

Rural Development reported Anti-Deficiency Act violations in fiscal year 2010 regarding Rural Utilities Service Broadband Program. These violations involved eight broadband loans from fiscal year 2004 with an aggregate loan amount of $170 million. Using the fiscal year 2010 subsidy rate, the budget authority associated with the undisbursed balance of these loans was approximately $7 million, as of October 1, 2009.

Status

The Anti-Deficiency Act violations were reported to the President, U.S. Congress, and the Office of Management and Budget on August 5, 2011. In response, Rural Development notified the affected borrowers and amended loan contracts, as necessary. Additional training was provided to Broadband program staff in the form of appropriations law, apportionments, and time-limited funding. Further process improvements were implemented, such as an enhanced pre-closing documentation review. Finally, through the signing of the fiscal year 2012 appropriations, on November 18, 2011, the Agency was able to successfully obtain a waiver that allowed for appropriations made available in fiscal years 2005, 2006, and 2007 to remain available until expended to disburse valid obligations.

Exhibit C: Agency Response

USDA Rural Development

United States Department of Agriculture
Rural Development
Office of the Under Secretary

TO: Lynette Cockrell
Director of Financial Audit Operations
Office of the Inspector General
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114

NOV - 7 2012

FROM: Dallas Tonsager
Under Secretary

SUBJECT: Response to Draft Audit Report on Rural Development's Fiscal Year 2012 General-Purpose Financial Statements

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2012 General-Purpose Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree on their contents.

Although, the audit report did not identify findings or recommendations, Rural Development will continue to monitor and enhance internal controls and financial statements' reporting processes to address improvements noted by the Office of Inspector General.

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

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

Committed to the future of rural communities.

RURAL DEVELOPMENT
FISCAL YEARS 2012 and 2011
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT

"Committed to the future of rural communities"

Fiscal Year
2012 and 2011

Financial Statements

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

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2012 AND 2011

TABLE OF CONTENTS

Rural Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

Mission Statement

Rural Development is committed to helping improve the economy and quality of life in all of rural America by providing financial support for single and multi-family housing and other essential public facilities and services, such as water and sewer systems, health clinics, emergency service facilities, and electric and telephone service.

Rural Development promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

Key Goal

Rural Development supports the USDA strategic goal to assist rural communities to create prosperity so they are self-sustaining, re-populating, and economically thriving. Two key objectives Rural Development supports are (1) to enhance rural prosperity; and (2) to create thriving communities.

Organizational Structure

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

Loan Programs

Rural Development loan programs are delivered through the National Office, state offices, and a network of field offices. The mission area is supported by various organizations that provide accounting, budget, and loan servicing support for all mission area programs.

Rural Development programs generally provide loans to individuals and enterprises that are at a greater risk of default since they lack the financial resources to obtain credit in the private sector. The type of assistance offered includes direct loans, loan guarantees, and grants. Some programs provide assistance to intermediaries that make loans or provide technical assistance to the ultimate beneficiaries. Several programs leverage government support with private sector financing to cover the total cost of a project. Loan programs serve 326,074 borrowers through direct programs and 670,678 borrowers through guaranteed programs.

On February 17, 2009 the American Recovery and Reinvestment Act (ARRA) was signed into law. The Recovery Act was designed to jumpstart the economy, create or save jobs, and address long-neglected challenges so that our country will thrive in the 21st century. Rural Development received funding for several programs through ARRA. Although this funding has since expired, outstanding loans are reflected in the portfolio below. For more information about ARRA programs, visit the website at: http://www.recovery.gov

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2012 than in FY 2011. There was an increase in the direct portfolio from $90.1 billion to $92.4 billion and the guaranteed portfolio from $70.4 billion to $84.5 billion.

Total Loan Portfolio as of September 30, 2012
FY's 2010 Through 2012
(Dollars in Billions)

	FY 2010	FY 2011	FY 2012
Direct Loans			
Single Family Housing	$15.4	$15.4	$15.5
Multi-Family Housing	11.0	11.4	11.6
Community Facilities	3.4	3.8	4.4
Water & Environmental	11.0	11.9	12.1
Electric	40.7	42.2	43.3
Telecommunications	4.3	4.5	4.6
Business Programs	0.8	0.9	0.9
Total Direct	86.6	90.1	92.4
Guaranteed Loans			
Single/Multi-Family Housing	$50.0	$62.0	$75.8
Community Facilities	0.9	1.0	1.2
Water & Environmental	0.1	0.1	0.1
Electric	0.3	0.3	0.3
Business Programs	5.9	7.0	7.1
Total Guaranteed	57.2	70.4	84.5
Total Loan Portfolio	**$143.8**	**$160.5**	**$176.9**

Rural Development Programs

RURAL HOUSING SERVICE

Single Family Housing (SFH) programs improve the economy and quality of life in rural America. Through these programs, Rural Development provides direct and guaranteed loans to low and moderate income families in rural areas. These loans are made to finance purchasing, building, improving, repairing, and/or rehabilitating homes.

Since 1950, the Single-Family Housing Direct (SFH-D) program has made home ownership possible to rural families and individuals. Loans repayable over 33 to 38 years feature a subsidy that can reduce the effective interest rate to as low as 1 percent.

The Single Family Housing Guaranteed (SFH-G) program guarantees loans from approved private sector lenders. Many of these lenders submit applications and receive guarantee commitments electronically using the online Guaranteed Underwriting System (GUS). Loans may be guaranteed for up to 90 percent of the loan amount and repaid over 30 years at a rate negotiated between the borrower and private lender. The SFH direct and guaranteed programs are two of the few remaining mortgage programs providing loans with no down payment required.

Multi-Family Housing (MFH) programs provide financing for Rural Rental Housing (RRH), Farm Labor Housing, and Cooperative Housing projects for low income and elderly residents in rural communities. Rental Assistance payments may be provided for low income residents of these projects. RRH loans enable developers and co-ops to provide housing for the elderly, disabled individuals, and families who cannot afford the purchase price and maintenance costs of their own homes. Farm Labor Housing loans and grants enable farmers, public or private nonprofit organizations, and units of state and local governments to develop and/or rehabilitate housing for seasonal and year-round farm workers. The Housing Preservation Grant program enables local non-profits to encourage the rehabilitation of single and multi-family structures by combining grant money with other funding sources to help low income residents repair and rehabilitate their homes.

Guaranteed rental housing loans provide guarantees on loans made by lenders to build or preserve affordable rural rental housing. Tenant eligibility ranges from very low income to moderate income families, seniors and individuals. USDA guarantees up to 90 percent of a loan made by a qualified lender. Through the program's partnership with capital market participants, loans guaranteed through the program are sold in the secondary market thereby attracting private capital to these rural markets.

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

Delinquency rate is one indicator of success for the MFH program. Rural Development's goal to provide quality housing for rural residents is achieved when delinquency and losses are minimized. Minimizing losses preserves the availability of funding for affordable housing for eligible rural residents.

Community Facilities (CF) programs provide both direct and guaranteed loans to help rural communities develop or improve their essential community infrastructure and facilities for public use in rural communities of 20,000 or less. The program is available to public entities such as cities, towns and special purpose districts, as well as nonprofit corporations with significant community support and federally-recognized Indian tribes. These facilities include hospitals, health clinics, schools, fire, rescue, and public safety, nursing homes and assisted living facilities, child and adult day care, and public buildings.

Historically, the largest dollar volume and number of loans and grants have gone to finance health care, education and public safety projects. The quality of our schools, health care and public safety facilities has a direct impact on the quality of life and competitiveness of rural communities and is often a threshold condition for rural economic prosperity. Through CF Programs, Rural Development is striving to ensure that essential community facilities are readily available to all rural Americans.

The following chart shows key performance indicators, targets and results for Housing and Community Facilities for FY 2012.

HOUSING AND COMMUNITY FACILITIES PEFORMANCE SCORECARD FOR FY 2012			
Single Family Housing	FY 2012 Target	FY 2012 Actual	Results
Homeownership opportunities provided	190,186 *	153,027	Met
Delinquency Rate (Direct Loans)	Within 200 basis Points of Federal Housing Administration (FHA) Rate	Rate is 382 basis Points above FHA	Unmet
Delinquency Rate (Guaranteed Loans)	Within 50 basis points of FHA Rate	Rate is 241 basis Points below FHA	Exceeded
Multi-Family Housing			
Number of projects with accounts more than 180 days past due	Less than 275	240	Exceeded
Total number of units selected for funding for new construction	1,178	1,368	Exceeded
Amount of leveraged funds in MFH for new construction and rehabilitation	$600,000,000	$620,041,019	Exceeded
Community Facilities			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	5.5%	7.3%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	4.7%	3.7%	Unmet
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	4.5%	6.4%	Exceeded

* The FY 2012 performance goal for Homeownership Opportunities was 190,186 with a +/- 20 percent met range (152,149 to 228,223).

Overall, Rural Housing Service (RHS) had a successful year. The SFH-D program met its homeownership opportunities goal despite significant reductions in staffing. However, the program was unable to meet performance goals related to delinquency rate due to the continued run-off through loan maturities and an increase in the number of loans being approved for payment moratoriums and delinquency workout agreements. The temporary net effect is a higher overall delinquency rate while providing borrowers an additional opportunity to remain in their homes in lieu of foreclosure. The MFH program exceeded the target on all three program goals.

During FY 2012, despite a reduction in staff and a surge in workload and initiatives, CF obligated loans and grants at record levels since inception of the program in 1974 (excluding ARRA). CF exceeded its performance goals for rural health care and education by large margins. However, due to a decrease in overall CF grant funding; increased targeted investments in community infrastructure, economic growth and quality jobs; and a shift in critical needs of rural communities toward investment in education and health care, the CF program fell short of meeting its performance goal for Safety Facilities.

RURAL UTILITIES SERVICE

Utilities programs improve the quality of life in rural America by providing capital for electric, telecommunications (including distance learning and telemedicine), and water and environmental projects. These programs leverage scarce federal funds with private capital to invest in rural infrastructure, technology, and development of human resources.

Electric programs ensure continued availability of reliable, safe, and affordable electric service for rural consumers, by providing financing and technical assistance to upgrade, expand, and maintain the vast electric utility infrastructure in rural America. Rural electrification loans and loan guarantees finance electric distribution, transmission and generation facilities, including system improvements and replacements, renewable energy systems, and energy efficiency and conservation measures. Most electric borrowers are non-profit electric cooperatives. These customer-owned utilities serve rural homes, farms, ranches, businesses, factories, and community facilities. Because of their largely residential customer base, and low population and electric load densities of their rural service territories, electric cooperatives generate less revenue per mile of line than other electric utilities.[1]

The Electric programs also administer the High Energy Cost Grant Program which supports energy facilities serving communities in which home energy costs exceed 275 percent of the national average.

The Telecommunications Program annually finances new construction and upgrades to telecommunications infrastructure. Access to high-speed Internet services and other quality telecommunications services increases educational opportunities, improves availability of healthcare, job creation and retention, and enhances continued economic growth. Private capital for the deployment of broadband services in rural areas is limited, making incentives offered by

[1] National Rural Electric Cooperative Association "U.S. Electric Utility Overview" http://www.nreca.coop/members/Co-opFacts/Pages/default.aspx

Rural Development vitally important. Facilities financed must be capable of offering high-speed service to all subscribers. Telecommunications programs consist of three major components: (1) loans for infrastructure improvement and expansion (2) loans and grants for distance learning and telemedicine initiatives, and (3) annual funding for loans and grants targeted for the deployment of broadband service in small towns and communities. These programs are a powerful tool for building strong rural economies.

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

The Farm Bill Broadband program was established with the Farm Security and Rural Investment Act of 2002 to provide access to Broadband Telecommunications services in rural areas. It was modified and reauthorized in the 2008 Farm Bill. Designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less, these funds are provided through a variety of direct and guaranteed loans. Broadband networks in small rural towns facilitate economic growth and provide backbone for delivery of increased educational opportunities over state-of-the-art telecommunications networks. Access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources.

Water and Environmental Program (WEP) loans and grants are provided to rural communities for the development, replacement, or upgrading of water and environmental facilities. Primary objectives of the WEP program are to provide rural residents with modern and affordable water and waste disposal services and to direct program resources to those rural communities with the greatest need.

The following chart shows key performance indicators, targets and results for Utilities for FY 2012.

UTILITIES PERFORMANCE SCORECARD FOR FY 2012			
Electric Loans – Direct and Guaranteed	FY 2012 Target	FY 2012 Actual	Results
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	6.1	8.3	Exceeded
Telecommunications Loans			
Number of borrowers/subscribers receiving new or improved telecommunication services	120,000	44,055	Unmet
Percentage increase of borrowers/subscribers receiving new or improved telecommunication services	5.7%	1.9%	Unmet
Leveraging of telecommunications financial assistance (private investment to Rural Development funding)	$3.00:1	$1.90:1	Unmet
Distance Learning and Telemedicine			
Number of educational institutions receiving distance learning facilities	342	686	Exceeded
Number of healthcare institutions receiving telemedicine facilities	257	321	Exceeded
Farm Bill Broadband			
Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	100,000	19,844	Unmet
Water and Environmental			
Number of borrowers/subscribers receiving new or improved service from agency funded water facility (millions)	1.4	2.5	Exceeded

Rural Utilities Service (RUS) did not meet performance measure goals for Telecommunications or Farm Bill Broadband Loans in 2012. Leveraging in the Telecommunications Loan program continues to decline, as borrowers continue to utilize more capital from debt financing than internally generated funds. Loan application levels and processing were affected by two major issues: (1) New regulations for the broadband loan program published in March 2011, requiring revision and resubmission of all pending applications submitted prior to the publication of the regulations; (2) The Federal Communications Commission (FCC) adopted new rules governing Universal Service Fund (USF) and inter-carrier compensation (ICC) distributions to rural carriers in 2012, which resulted in reductions in federal support to existing telecommunications providers serving rural communities and tribal lands. The level of uncertainty caused by the new USF and ICC revisions had a direct impact on the level of demand for the RUS infrastructure loan program. Consequently, RUS did not obligate all FY 2012 available funding and did not meet the program performance measures.

RURAL BUSINESS SERVICE

Rural Business and Cooperative (BCP) programs enhance the quality of life for all rural Americans by providing leadership in building energy efficient and competitive businesses and sustainable cooperatives that can prosper in the global marketplace. In partnership with the private sector and community-based organizations, these programs provide financial assistance and business planning services and help fund projects that create or preserve quality jobs and promote clean rural environments.

Business & Industry (B&I) Guaranteed Loan programs help create and maintain employment and improve the economic climate in rural communities. This is accomplished by providing loan guarantees to private lenders of up to 80 percent used to fund business and industrial acquisition, construction, conversion, enlargement, repair or modernization. The number of jobs created or saved in rural communities is a key performance measure and a critical element in determining the viability of a project for funding.

The Intermediary Relending Program (IRP) provides direct loans at an interest rate of one percent to community-based intermediaries and to cities with a population of less than 25,000 to relend for business development and expansion projects. Private non-profit corporations, public agencies, Indian tribes, and cooperatives are eligible to become intermediaries. Direct loan funds are used to capitalize rural revolving loan funds and are re-loaned to local small businesses that are not eligible for traditional bank loans. Ultimate recipients must demonstrate an ability to start or expand local businesses, thereby creating employment or saving existing rural jobs.

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

Rural Economic Development Loans & Grants (REDL & REDG) provide zero interest loans and grants to utility borrowers to promote sustainable rural economic development and job creation projects. Zero interest loans are used by electric or telephone utilities to relend to recipients.

The Rural Microentrepreneur Assistance Program (RMAP) provides direct loans, technical assistance grants, and technical assistance-only grants to Microenterprise Development Organizations (MDOs) to support the development and ongoing success of rural microentrepreneurs and Microenterprises in rural areas. In FY 2012, the RMAP program only awarded annual grants to existing MDOs.

The Section 9007 Rural Energy for America Program (REAP) provides loan guarantees and grants to agricultural producers and rural small businesses to purchase and install renewable energy systems and make energy-efficiency improvements. Benefits of the program include replacing energy generated from fossil fuels with renewable energy generation and reducing greenhouse gas emissions.

The Section 9003 Biorefinery Assistance Program provides loan guarantees to viable commercial-scale facilities to develop new technologies for advanced biofuels from renewable biomass other than corn kernel starch.

Section 9004 Repowering Assistance Payments provide assistance to biorefineries currently using fossil fuels to produce heat and power to convert to using renewable biomass.

Section 9005 Advanced Biofuel Producer Payments are provided to biofuel producers to support and expand production of advanced biofuels refined from sources other than corn kernel starch.

Value Added Producer Grant programs provide rural producers an opportunity to increase their share of revenues received for their processed products. Grants are for working capital, feasibility studies, expansion, modernization and start-up to enhance the local job market mix and improve the local tax base. As a result, the rural economy is stimulated, jobs created, and quality of life improves.

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

The following chart shows key performance indicators, targets and results for Business and Cooperative for FY 2012.

BUSINESS AND COOPERATIVE PERFORMANCE SCORECARD FOR FY 2012			
Rural Business-Cooperative Programs (Direct & Guaranteed combined)	FY 2012 Target	FY 2012 Actual	Results
Number of jobs created or saved through USDA financing of businesses	42,288	52,468	Exceeded
B & I Guaranteed Loans and Grants			
Delinquency rate (excluding bankruptcy cases)	10%	6.32%	Exceeded
Small businesses and cooperatives assisted	410	443	Exceeded
Renewable Energy and Efficiency			
Millions of kWh generated/saved	173.8	7,290.7	Exceeded
Millions of gallons of advanced biofuel	560	1,232	Exceeded

BCP programs exceeded all performance targets for FY 2012. The target for jobs created and saved was exceeded by more than 10,000 jobs with total jobs created and saved at 52,468. BCP programs increased efficiencies and impact by targeting resources to projects of highest priority while emphasizing quality production in loan and grant making.

In FY 2012, BCP emphasized the importance of correlating the data used in priority scoring applications with data used in reporting performance measures. Additional guidance and training provided to agency field offices to reinforce data integrity combined with weekly monitoring by the National Office allowed BCP to improve the quality of its performance measures data.

Future Opportunities and Challenges

Rural Development is impacted by changes occurring in society and the local, national, and world economies. Rural Development is continually evaluating its business practices to ensure they are efficient and effective, resulting in new technologies, initiatives, systems, and policies. Some opportunities and challenges resulting from these changes are summarized in the following areas:

Budget Challenges and a Transforming Workplace

The budget challenges USDA and Rural Development is facing are unprecedented. Difficult decisions must be made so that we can continue to meet our mission.

This fiscal year, the Secretary of Agriculture announced the closing of some 260 offices in USDA. Included in these closings were 43 Rural Development Offices in 17 states. Retirement incentives offered to senior employees and the resultant loss of the knowledge, skills, and abilities added to a reduced workforce will provide additional challenges for the agency in continuing to serve rural America with the same standard of service.

Technology and Projects

The Comprehensive Loan Program (CLP) is an initiative to upgrade Rural Development program delivery systems. The goal is to make applying for loans and grants easier for customers and the Rural Development employees who serve them. CLP will improve the systems used to originate, service, and monitor loans and grants. The upgraded systems will have user friendly interfaces, streamlined processes, and improved data integrity.

Rural Development is participating with other USDA agencies in the implementation of the Financial Management Modernization Initiative (FMMI). The FMMI system will provide a vehicle for the Department to address challenges and opportunities in the rapidly changing federal financial management and technology environment. This initiative will impact every USDA agency and Rural Development organization. The FMMI project is led by the USDA Office of the Chief Financial Officer. The new system is state-of-the-art and provides online, real-time transaction capabilities and access. Data for FMMI will be fed from external source financial, payroll, and program systems. As each USDA agency migrates to FMMI, the agency's legacy systems are retired or replaced with an optimized FMMI interface.

The Budget and Performance Management System (BPMS) interacts with data in FMMI. The BPMS is a multi-USDA agency investment to improve budget and financial management operations through business process modernization, including new data processing and handling tools to perform budgeting and resource management functions. These tools will improve the quality and timeliness of management information for decision-makers and will also integrate budget and performance data more effectively.

Rural Development has been granted recent authority to collect an annual fee from lenders in the Single Family Housing Guaranteed Loan Program (SFHGLP). The intent of the annual fee is to make the SFHGLP subsidy neutral, thus eliminating the need for taxpayer support of the program. For FY 2012, an annual fee of 0.3 percent of the outstanding principal balance will be required in order that the program may maintain subsidy neutrality. Rural Development will implement this fee in early FY 2013.

Flexibility and adaption are the keys to Rural Development's future. Rural Development has a goal to culturally transform the agency into one that is fully responsive, collaborative, transparent and respectful of diversity in our workforce and the customers we serve. A transformed Rural Development will have an engaged workforce that is motivated, empowered and prepared to meet the future.

Entity's Systems, Controls, and Legal Compliance

Management Assurances

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

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

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

No new material weaknesses were identified during FY 2012. However, one recurring significant deficiency regarding improvements needed in management review and documentation of the Credit Reform re-estimate processes was identified in Office of Inspector General (OIG)

Notification of Findings and Recommendations, No. 02-2011, and was reported in OIG's Financial Statement Audit No. 85401-01-11, Recommendations 1 and 2. This recurring deficiency was previously identified in OIG's FY 2010 Financial Statement Audit No. 85401-18-FM.

There were also five new control deficiencies that elevate to the Department's material weaknesses for Unliquidated Obligations (ULOs) and Information Technology (IT) that were identified during the FY 2012 A-123 assessment. For ULOs, these were (1) monthly reconciliations were not properly reconciled, (2) the review of the quarterly administrative ULO process failed due to the ULO report not being accurately reviewed, and (3) ULOs identified as cancelled or de-obligated on the quarterly ULO report were not processed. The estimated completion date for resolution is August 15, 2014. For IT, two control deficiencies were identified whereby vulnerability was cited for non-usage of Test Scripts. The estimated completion date for resolution is June 28, 2013.

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

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

In FY 2012, no new material weaknesses and/or significant deficiencies were identified. An IT significant deficiency remains outstanding that was identified in FY 2009, OIG Audit No. 85401-17-FM, regarding the rural utilities legacy system nonconformance to IT general and application controls. The estimated completion date for resolution is January 31, 2014.

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

The purpose of the Federal Financial Management Improvement Act (FFMIA) is to promote management's compliance with Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems include both financial and financially related (or mixed) systems.

Rural Development management evaluated its financial management systems under FFMIA for the period ended September 30, 2012. Based on the results of its evaluation, Rural Development is in substantial compliance with the Federal Financial Management Systems Requirements, Applicable Federal Accounting Standards, Standard General Ledger at the transaction level and Information Security, Policies, Procedures and Practices.

Noncompliance with Laws and Regulations. Rural Development reports non-compliance regarding the Improper Payment Elimination and Recovery Act of 2010 (IPERA). In FY 2012, OIG Audit No. 50024-0001-11 determined that the Department did not provide sufficient guidance to reporting agencies under IPERA. Rural Development did not identify measurable milestones with completion dates, designate a senior official accountable for improper payments, and establish an accountability mechanism (performance element). In addition, after OIG reviewed Rural Development's sampling methods they identified issues with the evaluators of the Rental Assistance Program (RAP) not validating the payment amount, and the evaluators of the SFH-G loan program not adequately validating eligibility when assessing for high-risk programs. Subsequent to that review, RAP has incorporated payment verification in 2012 and intends to continue the validation of payments in subsequent audits. For SFH-G, field office staff was instructed to review select loans for evidence of eligibility and performed a risk assessment that included verification of eligibility with a test of transactions. Corrective Action Plans (CAPs) are being prepared for the RAP and SFH-G loan programs.

Improper Payments Information Act of 2002 (IPIA)

The IPIA, as amended by the IPERA of 2010, requires that agencies annually review all programs and activities that they administer to identify those programs that may be susceptible to significant improper payments and to measure and report improper payment estimates for those high-risk programs each year. For each program identified, the agency is required to estimate the annual amount of improper payments and, if the estimate is over $10 million, report the estimate to Congress along with the actions the agency is taking to reduce those improper payments.

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

	REPORTED IN FY 2010	REPORTED IN FY 2011	REPORTED IN FY 2012
Outlays	$979.0 million	$1,020.0 million	$1,078.2 million
Improper Payment Rate %	1.39%	1.48%	3.44%
Improper Payments ($)	$13.6 million	$15.1 million	$37.1 million
Year of data sampled	FY 2009	FY 2010	FY 2011

The future target rates for improvement are:

FUTURE TARGETS FOR IMPROVEMENT	FY 2013	FY 2014	FY 2015
Estimated Outlays	$1,188.8 M	$1,248.2 M	$1,310.6 M
Improper Payment Rate	2.5%	2.2%	1.9%

The IPIA survey results for this year were approximately 2 percent higher than last year. The increase of the rate for this fiscal year is attributed to a lack of file documentation supporting the subsidy calculation and Tenant Certification forms improperly dated and signed. The agency makes every effort to recover improper payments. These efforts may include offsets, the use of private or public collection agents, and any other remedies available.

RECOVERY OF IMPROPER PAYMENTS	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Actual	Actual*	Target	Target	Target
Dollars Recovered ($)	$502,629	$409,827	$400,000	$398,000	$396,000

* As of March 2012

Variance Allowances

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

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

Loan Guarantee Liability:

Rural Development is reporting an increase in the Loan Guarantee Liability reflected in the FY 2012 Consolidated Balance Sheet. The variance is attributed to an increase in Guarantee Loans in the Section 502 Rural Housing program in FY 2012 as compared to FY 2011.

Resources Payable to Treasury:

Resources Payable to Treasury balances as reported in the FY 2012 Consolidated Balance Sheet increased. The increase is largely due to a lower allowance for FY 2012 for the liquidating Electric program.

Obligations Incurred:

Obligations Incurred for direct programs as reported in the Statement of Budgetary Resources experienced an increase in FY 2012. The most significant programs contributing to the increase are the Community Facility and Electric programs.

Actual Offsetting Collections:

Rural Development is reporting an increase in the actual collections in the Statement of Budgetary Resources. The increase is attributed to additional principal collections received in the Electric and Water and Environmental programs during FY 2012 as compared to FY 2011.

Limitations of the Financial Statements

The principal 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 Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Millions)

	2012	2011
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 17,610	$ 15,965
Accounts Receivable, Net (Note 4)	0	1
Other (Note 7)	0	0
Total Intragovernmental	17,610	15,966
Loans Receivable and Related Foreclosed Property, Net (Note 5)	83,604	80,074
General Property, Plant and Equipment, Net (Note 6)	50	53
Other (Note 7)	37	37
Total Assets	**101,301**	**96,130**
Liabilities (Note 8):		
Intragovernmental:		
Accounts Payable	4	4
Debt (Note 9)	83,869	79,071
Resources Payable to Treasury (Note 1M)	7,223	6,023
Downward Reestimates Payable to Treasury General Fund (Note 1N)	746	691
Other (Note 10)	27	33
Total Intragovernmental	91,869	85,822
Accounts Payable	26	23
Loan Guarantee Liability (Note 5)	4,114	3,298
Federal Employee and Veteran Benefits (Note 8)	38	35
Other (Note 10)	194	170
Total Liabilities	**96,241**	**89,348**
Commitments and Contingencies (Note 11)		
Net Position:		
Unexpended Appropriations	5,958	7,238
Cumulative Results of Operations	(898)	(456)
Total Net Position	**5,060**	**6,782**
Total Liabilities and Net Position	**$ 101,301**	**$ 96,130**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Millions)

	2012	2011
Strategic Goal:		
Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.		
Program Costs (Note 12):		
Intragovernmental Gross Costs		
Borrowing Interest Expense	$ 3,759	$ 3,669
Other	329	384
Total Intragovernmental Gross Costs	4,088	4,053
Less: Intragovernmental Earned Revenue (Note 13)	431	460
Intragovernmental Net Costs	**3,657**	**3,593**
Gross Costs with the Public:		
Grants	2,844	2,538
Loan Cost Subsidies	1,066	1,056
Other	(669)	60
Total Gross Costs with the Public	3,241	3,654
Less: Earned Revenues from the Public (Note 13)	3,432	3,300
Net Costs with the Public	**(191)**	**354**
Net Cost of Operations	**$ 3,466**	**$ 3,947**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Millions)

	2012	2011
Cumulative Results of Operations		
Beginning Balances:	$ (456)	$ 30
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**(456)**	**30**
Budgetary Financing Sources:		
Other Adjustments	(155)	(205)
Appropriations Used	5,135	4,544
Transfers-In/Out Without Reimbursement	(1,150)	(354)
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	158	148
Imputed Financing	117	147
Other	(1,081)	(819)
Total Financing Sources	**3,024**	**3,461**
Net Cost of Operations	(3,466)	(3,947)
Net Change	(442)	(486)
Total Cumulative Results of Operations	**(898)**	**$ (456)**
Unexpended Appropriations		
Beginning Balances:	$ 7,238	$ 8,203
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$ 7,238**	**$ 8,203**
Budgetary Financing Sources:		
Appropriations Received	3,887	3,683
Appropriations Transferred In/Out	(2)	(1)
Other Adjustments	(30)	(103)
Appropriations Used	(5,135)	(4,544)
Total Budgetary Financing Sources	**(1,280)**	**(965)**
Total Unexpended Appropriations	**5,958**	**7,238**
Net Position	**$ 5,060**	**$ 6,782**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In Millions)

	2012		2011	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 4,033	$ 3,894	$ 3,628	$ 3,941
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	4,033	3,894	3,628	3,941
Recoveries of Prior Year Unpaid Obligations	317	1,705	391	835
Other Changes in Unobligated Balance	(65)	(3,082)	(164)	(2,841)
Unobligated Balance from Prior Year Budget Authority, Net	4,285	2,517	3,855	1,935
Appropriations	4,684	0	3,516	2
Borrowing Authority (Notes 15 and 16)	0	9,442	0	9,335
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,053	6,185	1,856	5,910
Total Budgetary Resources	**$ 11,022**	**$ 18,144**	**$ 9,227**	**$ 17,182**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	$ 5,102	$ 13,857	$ 5,194	$ 13,288
Unobligated Balance, End of Year:				
Apportioned	1,153	1,877	1,506	3,785
Exempt From Apportionment	0	0	0	0
Unapportioned	4,767	2,410	2,527	109
Total Unobligated Balance, End of Year	5,920	4,287	4,033	3,894
Total Budgetary Resources	**$ 11,022**	**$ 18,144**	**$ 9,227**	**$ 17,182**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	$ 7,664	$ 27,884	$ 8,649	$ 29,415
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(15)	(767)	(14)	(905)
Obligated Balance, Start of Year (Net), Before Adjustments	7,649	27,117	8,635	28,510
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	7,649	27,117	8,635	28,510
Obligations Incurred	5,102	13,857	5,194	13,288
Outlays	(6,157)	(14,312)	(5,787)	(13,983)
Change in Uncollected Customer Payments from Federal Sources	(5)	(132)	(2)	137
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(317)	(1,705)	(391)	(835)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	6,292	25,725	7,664	27,884
Uncollected Customer Payments From Federal Sources, End of Year	(20)	(900)	(15)	(767)
Obligated Balance, End of Year	**$ 6,272**	**$ 24,825**	**$ 7,649**	**$ 27,117**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$ 6,737	$ 15,627	$ 5,372	$ 15,247
Actual Offsetting Collections	(3,627)	(10,071)	(3,818)	(8,884)
Change in Uncollected Customer Payments From Federal Sources	(5)	(132)	(2)	137
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**$ 3,105**	**$ 5,424**	**$ 1,552**	**$ 6,500**
Outlays, Gross	$ 6,157	$ 14,312	$ 5,787	$ 13,983
Actual Offsetting Collections	(3,627)	(10,071)	(3,818)	(8,884)
Outlays, Net	2,530	4,241	1,969	5,099
Distributed Offsetting Receipts	1	(1,027)	0	(672)
Agency Outlays, Net	**$ 2,531**	**$ 3,214**	**$ 1,969**	**$ 4,427**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Rural Development

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2012 AND 2011 (In Millions)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

In FY 2012, the Combined Statement of Budgetary Resources was reclassified to better align with the new SF133, Report on Budget Execution and Budgetary Resources, format.

Distributed Offsetting Receipts as presented on the Combined Statement of Budgetary Resources and the Required Supplementary Information were reclassified from the Budgetary column to the Non-Budgetary column in FY 2012. This change was a result of a department initiative to apply a consistent methodology across the department. The department found that there was inconsistent guidance, and agencies were in fact reporting the amounts differently.

B. Reporting Entity

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

C. Basis of Accounting

The accounting principles and standards applied in preparing the financial statements are in accordance with guidance from the Federal Accounting Standards Advisory Board (FASAB), the Director of OMB and Comptroller General, which constitute generally accepted accounting principles for the Federal Government and its component entities. Guidelines from the Federal Credit Reform Act of 1990 (Credit Reform) contained in the Omnibus Budget Reconciliation Act of 1990 are also applied.

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

All significant interfund and intrafund balances and transactions have been eliminated in the consolidation except for those Credit Reform transactions impacting the Combined Statement of Budgetary Resources and Reconciliation of Net Cost of Operations to Budget **(Note 23)**.

NOTE 1: Continued

Fiduciary assets are not assets of Rural Development and are not recognized on the Balance Sheet. See **Note 24**, Fiduciary Activity.

D. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The agency's largest estimates are a result of the Federal Credit Reform Act programs. Actual results could differ from those estimates.

E. Revenue and Other Financing Sources

Revolving/Credit Funds:

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

General Funds:

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

F. Fund Balance with Treasury

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

G. Lending Activities

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

NOTE 1: Continued

Other lending activities include the guarantee of loans for Single Family Housing, Multi-Family Housing, Community, Business, and Utility programs. The term "guarantee" means "to guarantee the repayment of loans to eligible borrowers originated, held, and serviced by a private financial agency or other lender approved by the Secretary of Agriculture."

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

H. Loans Receivable and Related Foreclosed Property, Net

Loans are accounted for as receivables after funds have been disbursed. They are carried at their principal amount outstanding (**Note 5**), and accrue interest based on the contractual interest rate. When a loan becomes nonperforming (in excess of 90 days delinquent or when borrowers enter into troubled debt restructuring arrangements), all interest previously accrued on the loan is reversed for financial reporting purposes, and interest income on the nonperforming loan is then recognized only to the extent of the collections received. Nonperforming loans are reclassified as performing and accrue interest when they become current or less than 90 days delinquent. In addition, interest income recognition subsequent to troubled debt restructuring arrangements is generally limited to net present value of the adjusted future cash flows.

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

Present value and Credit Reform prescribed methodology is used to value the remaining interest and principal portfolio. **Note 5** provides additional information on the methods used for the direct and guaranteed loans.

I. General Property, Plant and Equipment, Net

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

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

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

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

NOTE 1: Continued

J. Liabilities

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

K. Borrowings/Interest Payable to Treasury

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

L. Pension and Other Employee Benefits

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

M. Resources Payable to Treasury

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

N. Downward Reestimates Payable to Treasury General Fund

Rural Development records the liability for downward reestimates in accordance with the Treasury General Fund Receipt (GFR) Account Guide, most notably the section which illustrates the accounting and reporting requirements for Non-Custodial Statement collections applicable to collections of downward reestimates of subsidy expense, as it relates to Treasury GFR Accounts. As direct and/or guaranteed loan financing accounts collect more subsidy than is necessary to fund future net cash outflows, the applicable financing account must transfer the excess subsidy, with interest, to a designated Treasury GFR Account pursuant to the Federal Credit Reform Act of 1990, as amended. The Treasury GFR Account Guide stipulates that credit agencies are to include the Standard General Ledger entries of the Treasury GFR Accounts in their respective trial balances and financial statements as non-entity. Non-entity refers to the fact that any applicable resources are "NOT FOR USE" by Rural Development. This liability is reported on the Balance Sheet under the line titled, Downward Reestimates Payable to Treasury General Fund.

O. Contingencies

The Rural Development mission area is a party in various legal actions and claims through the normal course of its operations. In the opinion of management and the USDA Office of the General Counsel, the ultimate resolution of these legal actions and claims will not materially affect the financial position or results of operations **(Note 11)**.

NOTE 1: Continued

P. Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, the obligated amount is recorded as an undelivered order **(Note 20)**. Undelivered orders are reduced by either an expenditure or an obligation cancellation. Appropriated funds which are not obligated are treated as unobligated amounts. At the end of the fiscal year, certain multi-year appropriations which have unobligated balances remain available for obligation in future periods. Unobligated appropriations are returned to Treasury when their period of availability cancels.

Q. Intragovernmental Financial Activities

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

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

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

R. Allocation Transfers

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

NOTE 2: NON-ENTITY ASSETS

Non-Entity Assets represent assets that are “NOT FOR USE” by Rural Development. The amount reported as Intragovernmental, Fund Balance with Treasury represents the amount of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2012. This balance is comprised of federal funds related to the operation of the Escrow Program and is also reported as Non-Budgetary Fund Balance with Treasury in **Note 3.**

	FY 2012		FY 2011	
With the Public				
Cash and Other Monetary Assets	$	0	$	0
Intragovernmental				
Fund Balance with Treasury	$	38		34
Total Non-Entity Assets	$	38	$	34
Total Entity Assets	$	101,263	$	96,096
Total Assets	**$**	**101,301**	**$**	**96,130**

NOTE 3: FUND BALANCE WITH TREASURY

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

Included in the Unavailable line are restricted funds which are limited in their future use and are not apportioned for current use. These amounts represent the expired authority in annual year grant and program accounts (annual years prior to FY 2012) and are only available for prior year upward obligations. After the fifth year of expiration, all funds are returned to Treasury except those entities having extended authority to disburse. For FY's 2012 and 2011, there were approximately $79 million and $71 million in expired funds, respectively.

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

	FY 2012	FY 2011
Fund Balances:		
Revolving Funds	$ 10,494	$ 7,567
General Funds	7,119	8,403
Other Fund Types	(3)	(5)
Total	**$ 17,610**	**$ 15,965**
Status of Fund Balance with Treasury (FBWT):		
Unobligated Balance:		
Available	$ 3,030	$ 5,291
Unavailable	7,177	2,636
Obligated Balance Not Yet Disbursed	31,097	34,766
Borrowing Authority Not Yet Converted to Fund Balance	(23,627)	(26,630)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(102)	(127)
Non-Budgetary Fund Balance with Treasury	35	29
Total	**$ 17,610**	**$ 15,965**

NOTE 4: ACCOUNTS RECEIVABLE (A/R), NET

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2012			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	$ 0	$ 0	$ 0
Total Intragovernmental Accounts Receivable	**0**	**0**	**0**
With the Public			
Audit Receivable	11	11	0
Total Accounts Receivable	**$ 11**	**$ 11**	**$ 0**
FY 2011			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	$ 1	$ 0	$ 1
Total Intragovernmental Accounts Receivable	**1**	**0**	**1**
With the Public			
Audit Receivable	11	11	0
Total Accounts Receivable	**$ 12**	**$ 11**	**$ 1**

NOTE 5: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

DISCUSSION OF CREDIT PROGRAMS AND CHARACTERISTICS

Each year, Rural Development programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing and utilities. To leverage the impact of its programs, Rural Development is working with state, local, and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives. Rural Development is able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

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

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

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

Direct Loans and Loan Guarantees

Direct loan obligations or loan guarantee commitments made after 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990, as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at net present value of future cash flows.

Additionally, the net present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the direct loan or guaranteed loan is disbursed.

Direct loan obligations or loan guarantee commitments made before 1992, and the resulting direct loans or loan guarantees are reported at net present value. Under the present value method, the nominal amount of direct loans is reduced by an allowance equal to the difference between the nominal amount and the present value of the expected net cash flows from the loans and the liability for guarantees is the present value of expected net cash flows due to loan guarantees. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loans or defaulted guaranteed loans receivable less the net present value of the subsidy at that time. The net present value of loans receivable is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

NOTE 5: Continued

Rural Development List of Programs

RURAL BUSINESS-COOPERATIVE PROGRAMS

- Biorefinery Guaranteed Loans
- Business and Industry Direct and Guaranteed Loans
- Intermediary Relending Program Direct Loans
- Renewable Energy Guaranteed Loans
- Rural Economic Development Direct Loans
- Rural Microenterprise Direct Loans

RURAL HOUSING PROGRAMS

- Community Facilities Direct and Guaranteed Loans
- Farm Labor Housing Direct Loans
- Multi-Family Housing Credit Sales
- Multi-Family Housing Direct and Guaranteed Loans
- Multi-Family Housing Relending Program
- Multi-Family Housing Revitalization Program
- Self-Help Housing Direct Loans
- Single Family Housing Credit Sales
- Single Family Housing Direct and Guaranteed Loans

RURAL UTILITIES PROGRAMS

- Broadband Direct Loans
- Distance Learning and Telemedicine Direct Loans
- Electric Direct and Guaranteed Loans
- Federal Financing Bank Electric Program
- Telecommunications Direct Loans
- Federal Financing Bank Telecommunications Program
- Water and Environmental Direct and Guaranteed Loans

NOTE 5: Continued

Program Characteristics

PROGRAM CHARACTERISTICS – DIRECT			
MAJOR PROGRAMS	**REPAYMENT PERIOD**	**INTEREST RATE**	**UNIQUE SERVICING OPTION**
Housing • **Single Family**	Maximum 30-38 years per program	Current	Payment assistance - payment moratoriums - loan reamortization
• **Multi-Family/Rural Cooperative**	1997 and prior – 50 years Subsequent – 50 years amortization with 30 year repayment and balloon	Current	Payment assistance - rental assistance to tenants
Community Facility	Maximum 40 years	4.5% to current	Workout agreements – loan reamoritization
Water and Environmental	Useful life not to exceed 40 years	Current rate not to exceed 5%	Principal payment deferments – loan reamortization – loan transfers
Electric	Maximum 35 years	Current or 5%	Payment deferments – loan reamortization – discounted loan prepayments. Loans prior to 11/93 are eligible for interest rates from 2-5%
Telecommunications	Expected composite economic life (depreciated life plus 3 years for Traditional Program) Expected useful life not to exceed 35 years	5% or Current up to 7% 5% or more	Payment extension
Rural Economic Development Loans	Maximum 10 years	0%	Payment deferment for up to 2 years
Intermediary Relending	Maximum 30 years	1%	Payment moratoriums
Business and Industry	Maximum 7-30 years per program	Current	Loan reamortization – loan transfer
Broadband	Maximum 35 years	Current or 4%	Payment extension

NOTE 5: Continued

PROGRAM CHARACTERISTICS – GUARANTEED			
MAJOR PROGRAMS	**REPAYMENT PERIOD**	**INTEREST RATE**	**UNIQUE SERVICING OPTION**
Housing • **Single Family** • **Multi-Family**	Maximum 30 years Maximum 40 years	Lender Lender	Maximum 90% guarantee – Lender pays 3.5% for purchase and 1% for refinance fees - Loans may be sold to third party - .4% to .5% annual fee is also charged
Community Facilities	Maximum 40 years	Lender	Maximum 90% guarantee – Lender pays 1% fee – Loans may be sold to third party
Electric	Maximum 35 years	Lender	100% Guarantee
Business and Industry	Maximum 7-30 years per program	Lender	Guarantee maximum 60-90% - Lender pays 2% to 3% fee and .25% annual fee
Business and Industry – American Recovery and Reinvestment Act	Maximum 7-30 years	Lender	Guarantee Maximum 90% - 1% fee no annual fee
Water and Environmental	Maximum 40 years	Lender	Rates will be negotiated between the lender and the borrower. They may be fixed or variable rates. – 1% lender fee
Renewable Energy Systems and Energy Efficiency Improvements (Section 9006)	Maximum 30 years for Real Estate Maximum 20 years for Machinery & Equipment or useful life whichever is less Maximum 30 years for combined Real Estate and Machinery & Equipment Maximum 7 years for Working Capital	Lender	Maximum loan of $25 million or 75% of project cost whichever is less. First payment should be scheduled after project is operational. – .25% annual fee
Biorefinery	Maximum 20 years or useful life of the project, whichever is less	Lender	Maximum 90% guarantee – Lender pays 3% fee – 1% annual fee is also charged.

NOTE 5: Continued

OTHER INFORMATION RELATED TO DIRECT LOANS AND LOAN GUARANTEES

FORECLOSED PROPERTY

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

For FY's 2012 and 2011, rural housing program properties consisted primarily of 1,375 and 1,253 rural single-family dwellings, respectively. The average holding period for single family housing properties in inventory for FY's 2012 and 2011 was 15 and 16 months, respectively. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2012 and 2011 was 13,634 and 12,246, respectively. Certain properties can be leased to eligible individuals.

NON-PERFORMING LOANS

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

INTEREST CREDIT

Approximately $18.6 billion and $19.1 billion of the rural housing programs unpaid loan principal as of September 30, 2012 and 2011, respectively, was receiving interest credit (payment assistance). If those loans receiving interest credit had interest accrued at the full-unreduced rate, interest income would have been approximately $935 million and $963 million higher for FY's 2012 and 2011, respectively. At the end of FY's 2012 and 2011, the Rural Development housing portfolio contained approximately 67.9 thousand and 69.5 thousand restructured loans with an outstanding unpaid principal balance of $2.7 billion and $2.6 billion, respectively.

MODIFICATIONS

A modification is any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. This includes the sale of loan assets and converting guaranteed loans to direct loans by purchasing them from a private lender. This also includes any action resulting from new legislation, or from the exercise of administrative discretion under existing law, that directly or indirectly alters the estimated cost of outstanding direct loans (or direct loan obligations) or loan guarantees (or loan guarantee commitments) such as a change in loan administration. The cost of a modification is the difference between the net present value of the cash flows before and after the modification.

Multi-Family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued through FY 2012. The revitalization projects were used to rehabilitate ailing housing developments. In this program, Rural Development determined whether the development owner has been offered a financial restructuring plan and what type of incentives, if any, has been offered to the owner to rehabilitate an ailing housing development and to provide affordable rent for tenants who live in such projects. In addition, the Guaranteed Housing Program had an immaterial modification in

NOTE 5: Continued

2011as a result of the implementation of the Home Affordable Modification Program (HAMP). More information on this modification and the HAMP Program can be found under the Guranteed Section.

SUBSIDY RATES AND REESTIMATES

The Federal Credit Reform Act of 1990, as amended, and OMB Circular A-11 governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost." Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are estimated annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows. Reestimates are revisions of the subsidy cost estimate of a cohort (or risk category) based on information about the actual performance and/or estimated changes in future cash flows of the cohort. In FY 2012 and FY 2011, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY 2012 and FY 2011, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. A key sensitivity element in the guaranteed programs is defaults. Fees and other collections are significant in the guaranteed housing and business and industry programs.

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

Rural Development's cash flow models are tailored for specific programs based on unique program characteristics. Specific models developed and utilized include models for Single Family Housing, Multi-Family Housing, Guaranteed, Electric Underwriters, Electric Modifications, and a direct loan model that covers the remaining portfolio with similar characteristics.

DIRECT LOANS

A direct loan is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest.

Direct Loan Obligations

Direct loan obligations are binding agreements by a Federal agency to make a direct loan when specified conditions are fulfilled by the borrower. **Table 1** illustrates the overall composition of the Rural Development loan portfolio by mission area and loan program for FY 2012 and FY 2011. Loans receivable and related foreclosed property, net balances at the end of FY 2012 were $84 billion compared to $80 billion at the end of FY 2011. Defaulted guaranteed loans were $265 million and $227 million at the end of FY's 2012 and 2011, respectively.

For the first time since the inception of the Rural Utilities Cushion of Credit (CoC) program, advance payments have surpassed the loans receivable balance in the Liquidating Fund. The Omnibus Budget

NOTE 5: Continued

Act of 1987, section 313, authorized the accumulation of CoC in the Revolving Fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt. This year, due to the increased volume of advance payments, the Liquidating Fund loans receivable would show a negative value of assets in Table 1. To accurately represent the value of Electric and Telecommunication assets, Rural Development will now report the CoC amounts as a separate line item in **Table 1**.

NOTE 5: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY

FY 2012	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 8,560	$ 78	$ 32	$ (3,831)	$ 4,839
Electric Loans	4,065	157	0	(1,087)	3,135
Cushion of Credit Advance Payments	(3,606)	0	0	0	(3,606)
Telecommunication Loans	412	1	0	(1)	412
Cushion of Credit Advance Payments	(191)	0	0	0	(191)
Rural Development[1]	903	8	0	(40)	871
Development Loan Funds	25	0	0	(8)	17
Other Programs	0	0	0	0	0
Pre-1992 Total	**10,168**	**244**	**32**	**(4,967)**	**5,477**
Obligated Post-1991					
Housing Loans	18,119	150	62	(2,939)	15,392
Community Facility Loans	4,282	39	0	(6)	4,315
Electric Loans	42,897	253	0	(759)	42,391
Telecommunication Loans	4,374	4	0	99	4,477
Water and Environmental Loans	11,280	97	0	(551)	10,826
Development Loan Funds	428	2	0	(132)	298
Business and Industry Funds	32	0	0	30	62
Economic Development	113	0	0	(12)	101
Post-1991 Total	**81,525**	**545**	**62**	**(4,270)**	**77,862**
Total Direct Loans Receivables	**91,693**	**789**	**94**	**(9,237)**	**83,339**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund[1]	1	0	0	0	1
Post-1991					
Community Facilities	19	0	0	(1)	18
Business and Industry	268	5	0	(36)	237
Housing Loans	424	0	0	(415)	9
Total Defaulted Guaranteed Loans	**$ 712**	**$ 5**	**$ 0**	**$ (452)**	**$ 265**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 83,604**

[1] Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and Fund.

NOTE 5: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY

FY 2011	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 8,964	$ 77	$ 33	$ (4,278)	$ 4,796
Electric Loans	5,183	41	0	(1,468)	3,756
Cushion of Credit Advance Payments	(3,005)	0	0	0	(3,005)
Telecommunication Loans	577	1	0	(20)	558
Cushion of Credit Advance Payments	(158)	0	0	0	(158)
Rural Development[2]	1,072	10	0	(116)	966
Development Loan Funds	27	0	0	(12)	15
Other Programs	2	0	0	(1)	1
Pre-1992 Total	**12,662**	**129**	**33**	**(5,895)**	**6,929**
Obligated Post-1991					
Housing Loans	17,748	99	56	(2,767)	15,136
Community Facility Loans	3,737	35	0	(172)	3,600
Electric Loans	40,071	28	0	(673)	39,426
Telecommunication Loans	4,031	1	0	60	4,092
Water and Environmental Loans	10,871	105	0	(731)	10,245
Development Loan Funds	439	2	0	(144)	297
Business and Industry Funds	33	0	0	(11)	22
Economic Development	110	0	0	(10)	100
Post-1991 Total	**77,040**	**270**	**56**	**(4,448)**	**72,918**
Total Direct Loans Receivables	**89,702**	**399**	**89**	**(10,343)**	**79,847**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development Insurance Fund[2]	1	0	0	0	1
Post-1991					
Community Facilities	15	0	0	(1)	14
Business and Industry	255	0	0	(43)	212
Housing Loans	176	0	0	(176)	0
Total Defaulted Guaranteed Loans	**$ 447**	**$ 0**	**$ 0**	**$ (220)**	**$ 227**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 80,074**

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

NOTE 5: Continued

Subsidy Cost Allowance

During the fiscal year, the gross outstanding balance of the direct loans obligated after 1991 is adjusted by the value of the subsidy cost allowance held against those loans. **Table 2** shows the reconciliation of subsidy cost allowance balances from FY 2011 to FY 2012. The subsidy cost allowance remained at $4.7 billion for both years.

TABLE 2: SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

Beginning Balance, Changes, and Ending Balance	**FY 2012**	**FY 2011**
Beginning Balance of the Subsidy Cost Allowance	$ 4,668	$ 4,411
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	124	90
Default costs (net of recoveries)	107	102
Fees and other collections	(18)	(6)
Other subsidy costs	(18)	67
Total of the above subsidy expense components	195	253
Adjustments:		
Loan modifications	4	10
Fees received	48	49
Loans written off	(478)	(371)
Subsidy allowance amortization	(93)	(97)
Other	412	314
Ending balance of the subsidy cost allowance before reestimates	4,756	4,569
Add or subtract reestimates by component:		
Interest rate reestimates	142	(359)
Technical/default reestimates	(176)	458
Total of the above reestimate components	(34)	99
Ending Balance of the Subsidy Cost Allowance	**$ 4,722**	**$ 4,668**

NOTE 5: Continued

Direct Loan Subsidy Expense

Direct loan subsidy expense is a component of the subsidy cost allowance. The total direct loan subsidy expense for FY 2012 is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. **Table 3** illustrates the composition of total subsidy expense, including reestimates, for FY's 2012 and 2011 by program. Total direct loan subsidy expense in FY 2012 was $165 million compared to $362 million in FY 2011, a decrease of $197 million.

TABLE 3: DIRECT LOAN SUBSIDY BY PROGRAM AND COMPONENT

	Subsidy Expense for New Direct Loans Disbursed					Modifications and Reestimates				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate	Technical/Default	Total	GRAND TOTAL
FY 2012										
Housing Loans	$ 42	$ 43	$ (1)	$ 17	$ 101	$ 4	$ 186	$ 138	$ 324	**$ 429**
Community Facility Loans	1	12	0	(3)	10	0	(129)	(24)	(153)	**(143)**
Electric Loans	(56)	21	(17)	(19)	(71)	0	147	(45)	102	**31**
Telecommunications Loans	(1)	25	0	(6)	18	0	(20)	11	(9)	**9**
Water and Environmental Loans	127	6	0	(7)	126	0	(141)	(115)	(256)	**(130)**
Development Loan Funds	6	0	0	0	6	0	118	(122)	(4)	**2**
Business and Industry Funds	1	0	0	0	1	0	(18)	(20)	(38)	**(37)**
Economic Development Loans	4	0	0	0	4	0	(1)	1	0	**4**
Total Subsidy Expense, Direct Loans	**$ 124**	**$ 107**	**$ (18)**	**$ (18)**	**$ 195**	**$ 4**	**$ 142**	**$ (176)**	**$ (34)**	**$ 165**
FY 2011										
Housing Loans	$ (5)	$ 47	$ 0	$ 94	$ 136	$ 10	$ 157	$ 195	$ 352	**$ 498**
Community Facility Loans	9	11	0	(2)	18	0	(22)	(3)	(25)	**(7)**
Electric Loans	(60)	19	(6)	(16)	(63)	0	(268)	160	(108)	**(171)**
Telecommunications Loans	(2)	18	0	(4)	12	0	(22)	12	(10)	**2**
Water and Environmental Loans	136	7	0	(5)	138	0	(81)	(29)	(110)	**28**
Development Loan Funds	7	0	0	0	7	0	(125)	119	(6)	**1**
Business and Industry Funds	1	0	0	0	1	0	4	4	8	**9**
Economic Development Loans	4	0	0	0	4	0	(2)	0	(2)	**2**
Total Subsidy Expense, Direct Loans	**$ 90**	**$ 102**	**$ (6)**	**$ 67**	**$ 253**	**$ 10**	**$ (359)**	**$ 458**	**$ 99**	**$ 362**

NOTE 5: Continued

Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4.** Direct loan volume remained at $9.2 billion for both years.

TABLE 4: TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST-1991)

	FY 2012	FY 2011	FY 2012 Over/Under FY 2011
Housing Loans	$ 1,151	$ 1,475	$ (324)
Community Facility Loans	763	663	100
Electric Loans	5,144	4,967	177
Telecommunications Loans	780	749	31
Water and Environmental Loans	1,264	1,311	(47)
Development Loan Funds	17	21	(4)
Business and Industry Loans	7	8	(1)
Economic Development	24	25	(1)
Total Direct Loans Disbursed	**$ 9,150**	**$ 9,219**	**$ (69)**

NOTE 5: Continued

Subsidy rates are used to compute each year's subsidy expense. **Table 5** has the direct loan subsidy rates for FY 2012. The subsidy rates disclosed in **Table 5** pertain only to the FY 2012 cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from current year and prior year cohorts.

TABLE 5: SUBSIDY RATES FOR DIRECT LOANS (PERCENTAGE)

FY 2012	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	1.69	3.89	0	-.85	4.73
Section 504 Housing Repair	19.79	-.06	0	-5.52	14.21
Credit Sales Section 203 (SFH)	-22.70	3.47	0	2.38	-16.85
Section 514 Farm Labor Housing	34.80	.11	0	-.76	34.15
Section 515 Multi-Family Housing	35.29	.17	0	-1.34	34.12
Section 523 Self-Help Housing Land Development	-1.01	0	0	0	-1.01
Credit Sales Section 209 (MFH)			Not Funded		
Multi-Family Housing Relending	36.84	0	0	0	36.84
Multi-Family Housing Revitalization Seconds	61.66	.11	0	-.03	61.74
Multi-Family Housing Revitalization Zero	54.28	.10	0	-.09	54.29
Community Facilities	-4.13	2.13	0	-1.03	-3.03
Distance Learning and Telemedicine			Not Funded		
Broadband	0	4.48	0	-.93	3.55
Water & Environmental	11.60	.10	0	-2.12	9.58
Electric Hardship	-15.52	.03	0	1.09	-14.40
FFB Electric	-2.01	.09	0	-2.08	-4.00
Telephone Hardship	-14.23	.04	0	.41	-13.78
Telephone Treasury	0	.37	0	-1.56	-1.19
FFB Telephone	3.08	.15	0	-6.87	-3.64
Intermediary Relending Program	34.60	.21	0	-.93	33.88
Rural Economic Development	13.03	.01	0	-.06	12.98
Rural Microenterprise Loans			Not Funded		
Electric Underwriters	-3.38	1.40	-4.35	.01	-6.32

NOTE 5: Continued

ANALYSIS OF DIRECT LOANS

The following is a discussion of events and changes that had significant and measurable effect on the subsidy expense, reestimates, and allowances.

HOUSING AND COMMUNITY FACILITY PROGRAMS

The Housing Programs had an overall net upward reestimate of $324 million. The majority of the $324 million upward reestimate related to a reduced assumption for future prepayments, and the related assumptions for payment assistance recapture. Unlike the guaranteed housing program, the payment assistance provided under the direct housing programs mitigates the traditional incentive to refinance mortgage loans in a declining interest rate environment. The direct loan program's historical experience includes a significant number of cash out refinances rather than interest rate refinances, which have declined following the housing crisis and are not expected to rebound in the near future.

The Community Facility Program is one of RD's fastest growing programs. The Community Facility Program had a downward reestimate of $152 million, which reflected two year's worth of revisions in projected cash flows, as the program did not calculate a reestimate in FY 2011. The majority of the adjustment was caused by a higher interest rate differential.

ELECTRIC PROGRAMS

The Electric Programs had an overall net upward reestimate of $102 million. The Federal Financing Bank (FFB) Electric Program lent funds to Electric utilities at reduced rates through borrowings provided by the FFB. The difference between the weighted average loan rate and the FFB debt costs increased slightly, resulting in lower projected costs for the program and a net downward reestimate of $88 million. The Electric Underwriting Program developed subsidy rates for specific projects due to unique project attributes. This program had a $188 million upward reestimate because of lower discount rates.

WATER AND ENVIRONMENTAL PROGRAM

The Water and Environmental Program had a downward reestimate of $256 million due to a slight increase in the difference between the weighted average borrower rates and Treasury rates.

NOTE 5: Continued

GUARANTEED LOANS

Rural Development offers guaranteed loan products, which are administered in coordination with conventional agricultural lenders for up to 90 percent of the principal loan amount, with the exception of the Electric Guarantees, which are guaranteed at 100 percent. Borrowers interested in guaranteed loans must apply to a conventional lender, which arranges for the guarantee with the Agency. Guaranteed loans are disclosed on the balance sheet in two ways: estimated losses on loan credit guarantees, which are valued and carried as a liability, and guaranteed loans purchased from third party holders, which are carried at net realizable value in loans receivable and related foreclosed property, net.

Loan Guarantees Outstanding

Guaranteed loans outstanding at the end of FY 2012 increased compared to the FY 2011 portfolio. **Table 6** shows the outstanding balances by loan program. During the current year, it was noted that a $3 million switch between pre-1992 Business and Industry and Water and Environmental Loans had historically been reported. The correction was made in 2012, which resulted in an increase to Business and Industry and a decrease to Water and Environmental. At the end of FY 2012 and FY 2011, there were $84.5 billion and $70.7 billion in outstanding principal (face value) and $75.0 billion and $62.6 billion in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Pre-1992 Outstanding Principal Face Value	Post-1991 Outstanding Principal Face Value	Total Outstanding Principal Face Value	Pre-1992 Outstanding Principal Guaranteed	Post-1991 Outstanding Principal Guaranteed	Total Outstanding Principal Guaranteed
FY 2012						
Housing Loans	$ 2	$ 75,822	$ 75,824	$ 2	$ 68,256	**$ 68,258**
Community Facility Loans	0	1,173	1,173	0	1,028	**1,028**
Electric Loans	96	193	289	96	193	**289**
Business and Industry Loans	5	7,100	7,105	4	5,319	**5,323**
Water and Environmental Loans	0	85	85	0	74	**74**
Other Programs	0	0	0	0	0	**0**
Total Guarantees Outstanding	**$ 103**	**$ 84,373**	**$ 84,476**	**$ 102**	**$ 74,870**	**$ 74,972**
FY 2011						
Housing Loans	$ 2	$ 62,258	$ 62,260	$ 2	$ 56,031	**$ 56,033**
Community Facility Loans	1	1,017	1,018	1	891	**892**
Electric Loans	132	199	331	132	199	**331**
Business and Industry Loans	2	7,021	7,023	1	5,303	**5,304**
Water and Environmental Loans	7	62	69	6	54	**60**
Other Programs	0	0	0	0	0	**0**
Total Guarantees Outstanding	**$ 144**	**$ 70,557**	**$ 70,701**	**$ 142**	**$ 62,478**	**$ 62,620**

NOTE 5: Continued

Liability for Loan Guarantees

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and after 1991 guarantees. **Table 6a** shows the loan guarantee liability; **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2012, the total liabilities increased by $816 million compared to FY 2011.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liability for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
FY 2012			
Liability for Loan Guarantees			
Housing Loans	$ 0	$ 3,120	$ 3,120
Community Facility Loans	0	81	81
Electric Loans	0	0	0
Business and Industry Loans	0	913	913
Water and Environmental Loans	0	0	0
Other Programs	0	0	0
Total Liabilities for Loan Guarantees	**$ 0**	**$ 4,114**	**$ 4,114**
FY 2011			
Liability for Loan Guarantees			
Housing Loans	$ 0	$ 2,377	$ 2,377
Community Facility Loans	0	75	75
Electric Loans	0	0	0
Business and Industry Loans	0	846	846
Water and Environmental Loans	0	0	0
Other Programs	0	0	0
Total Liabilities for Loan Guarantees	**$ 0**	**$ 3,298**	**$ 3,298**

NOTE 5: Continued

TABLE 6b: SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY (POST 1991)

Beginning Balance, Changes, and Ending Balance	**FY 2012**	**FY 2011**
Beginning Balance of the Loan Guarantee Liability	$ 3,298	$ 2,391
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	(9)	(3)
Default costs (net of recoveries)	69	602
Fees and other collections	(63)	(505)
Other subsidy costs	1	3
Total of the above subsidy expense components	(2)	97
Adjustments:		
Loan guarantee modifications	0	(8)
Fees received	443	552
Interest supplements paid	(8)	(7)
Claim payments to lenders	(93)	(51)
Interest accumulation on the liability balance	81	58
Other	(508)	(339)
Ending balance of the loan guarantee before reestimates	3,211	2,693
Add or subtract reestimates by component:		
Interest rate reestimates	179	105
Technical/default reestimates	724	500
Total of the above reestimate components	903	605
Ending Balance of the Loan Guarantee Liability (Post 1991)	**$ 4,114**	**$ 3,298**

NOTE 5: Continued

Guaranteed Loan Subsidy Expense

Total guaranteed loan subsidy expense for FY 2012 is a combination of subsidy expense for new guaranteed loans disbursed in the current year and the interest rate and technical reestimates to existing loans. **Table 7** illustrates the breakdown of total subsidy expense for FY 2012 and FY 2011 by loan program. Total guaranteed loan subsidy expense in FY 2012 was $901 million compared to $694 million in FY 2011,

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

Guaranteed Loan Programs	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				GRAND TOTAL
	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modification	Interest Rate	Technical	Total	
FY 2012										
Housing Loans	$ (9)	$ 51	$ (62)	$ 0	$ (20)	$ 0	$ 166	$ 595	$ 761	**$ 741**
Community Facility Loans	0	(12)	3	0	(9)	0	2	12	14	**5**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business and Industry Loans	0	30	(4)	1	27	0	11	117	128	**155**
Water and Environmental Loans	0	0	0	0	0	0	0	0	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ (9)**	**$ 69**	**$ (63)**	**$ 1**	**$ (2)**	**$ 0**	**$ 179**	**$ 724**	**$ 903**	**$ 901**
FY 2011										
Housing Loans	$ (3)	$ 439	$ (462)	$ 0	$ (26)	$ (8)	$ 59	$ 298	$ 357	**$ 323**
Community Facility Loans	0	9	(2)	0	7	0	3	10	13	**20**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business and Industry Loans	0	154	(41)	3	116	0	43	192	235	**351**
Water and Environmental Loans	0	0	0	0	0	0	0	0	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ (3)**	**$ 602**	**$ (505)**	**$ 3**	**$ 97**	**$ (8)**	**$ 105**	**$ 500**	**$ 605**	**$ 694**

an increase of $207 million.

NOTE 5: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume (face value) increased from $17.1 billion in FY 2011 to $20.1 billion in FY 2012. The housing loan program experienced the largest increase. Volume distribution between programs is shown in **Table 8.**

TABLE 8: GUARANTEED LOANS DISBURSED (POST 1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2012		
Housing Loans	$ 18,802	$ 16,922
Community Facility Loans	240	212
Business and Industry Loans	1,054	820
Water and Environmental Loans	26	22
Total Guaranteed Loans Disbursed	**$ 20,122**	**$ 17,976**
FY 2011		
Housing Loans	$ 15,071	$ 13,564
Community Facility Loans	212	187
Business and Industry Loans	1,820	1,438
Water and Environmental Loans	4	3
Total Guaranteed Loans Disbursed	**$ 17,107**	**$ 15,192**

Subsidy Rates for Loan Guarantees

Subsidy rates are used to compute each year's subsidy expense. **Table 9** has the guaranteed loan subsidy rates for FY 2012. The subsidy rates disclosed in **Table 9** pertain only to the FY 2012 cohorts. These rates cannot be applied to the guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from current year and prior year cohorts.

TABLE 9: SUBSIDY RATES FOR LOAN GUARANTEES (Percentage)

FY 2012	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	0.00	4.43	-3.89	0.00	.54
Section 538 Multi-Family Housing	0.00	6.97	-7.03	0.00	-.06
Community Facilities	0.00	5.61	-.87	-.01	4.73
Business and Industry	0.00	8.74	-3.16	0.00	5.58
Water and Environmental	0.00	2.43	-.85	.01	1.59
Renewable Energy	0.00	27.31	-1.11	-.01	26.19
Biorefinery (Section 9003 Loan Guarantees)	0.00	28.31	-2.80	1.29	26.80

NOTE 5: Continued

ANALYSIS OF GUARANTEED LOANS

The following is a discussion of events and changes that had significant and measurable effect on the subsidy expense, reestimates, and allowances.

The largest loan guaranteed program in Rural Development is the Single Family Housing, followed distantly by the Business and Industry program. This analysis will focus on the subsidy and reestimate shifts of those two programs.

SINGLE FAMILY HOUSING PROGRAMS

The Single Family Housing Guaranteed Programs had a sizeable upward reestimate of $761 million because of an increase in forecasted loss settlements, caused by the housing crisis. Actual loss settlements for FY 2012 were $220 million higher than previously forecasted. Rural Development management made manual adjustments to the default assumptions, which better indicate expected performance in the continuing wake of the crisis.

BUSINESS AND INDUSTRY PROGRAMS

Business and Industry Programs had total upward reestimate of $128 million because of continued high levels of loss settlements due to current economic conditions.

ADMINISTRATIVE EXPENSES

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

TABLE 10: ADMINISTRATIVE EXPENSES

	FY 2012	FY 2011
Direct Loan Programs		
Total	**$ 196**	**$ 227**
Guaranteed Loan Programs		
Total	**$ 410**	**$ 425**

NOTE 6: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

This equipment generally represents computer hardware, software, and other office equipment used in the Rural Development mission area's network of offices. Refer to **Note 11** for further information.

CLASSES	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life[3]	Method of Depreciation[4]	Capitalization Threshold
FY 2012						
Personal Property						
Equipment	$ 1	$ 1	$ 0	5-20	SL	$ 25,000
Internal Use Software	141	98	43	5-8	SL	$ 100,000
Internal Use Software in Development	7	0	7	2-15	SL	$ 100,000
Total	**$ 149**	**$ 99**	**$ 50**			
FY 2011						
Personal Property						
Equipment	$ 2	$ 2	$ 0	5-20	SL	$ 25,000
Internal Use Software	124	84	40	5-8	SL	$ 100,000
Internal Use Software in Development	13	0	13	2-15	SL	$ 100,000
Total	**$ 139**	**$ 86**	**$ 53**			

NOTE 7: OTHER ASSETS

	FY 2012	FY 2011
Intragovernmental		
Advances to Others	$ 0	$ 0
Other Assets	0	0
Total Intragovernmental	**0**	**0**
With the Public		
Investment in Loan Asset Sale Trust[5]	35	35
Other	2	2
Total Other Assets – Non-Governmental	**37**	**37**
Total Other Assets	**$ 37**	**$ 37**

[3] Range of Service Life

[4] SL - Straight Line

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

NOTE 8: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2012	FY 2011
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 7	$ 7
Total Intragovernmental	*7*	*7*
With the Public		
Federal Employee and Veteran Benefits	38	35
Unfunded Annual Leave	33	39
Contingent Liability	30	0
Total Liabilities Not Covered by Budgetary Resources[6]	108	81
Total Liabilities Covered by Budgetary Resources	96,133	89,267
Total Liabilities	**$ 96,241**	**$ 89,348**

NOTE 9: DEBT

	Beginning Balance	Net Borrowing	Ending Balance
FY 2012			
Intragovernmental Debt			
Debt to Treasury	$ 44,845	$ 932	$ 45,777
Debt to the Federal Financing Bank (FFB)	34,226	3,866	38,092
Total Intragovernmental Debt	79,071	4,798	83,869
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 79,071**	**$ 4,798**	**$ 83,869**
FY 2011			
Intragovernmental Debt			
Debt to Treasury	$ 44,155	$ 690	$ 44,845
Debt to the Federal Financing Bank (FFB)	31,316	2,910	34,226
Total Intragovernmental Debt	75,471	3,600	79,071
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 75,471**	**$ 3,600**	**$ 79,071**

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

NOTE 9: Continued

Classification of Debt	FY 2012	FY 2011
Intragovernmental Debt	$ 83,869	$ 79,071
Debt Held by the Public	0	0
Total Debt	**$ 83,869**	**$ 79,071**

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

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

SUPPLEMENTAL INFORMATION ASSOCIATED WITH DEBT

Interest Payable, Federal	FY 2012	FY 2011
Federal Financing Bank	$ 342	$ 48
Total	**$ 342**	**$ 48**

These interest payable amounts associated with borrowings from Treasury and the FFB are included in the table at the beginning of this note. Interest payments are due to FFB on September 30 each year. In FY 2012, September 30 was a non-business day; therefore, Rural Development recorded a quarterly accrual.

Interest Expense, Federal	FY 2012	FY 2011
Federal Financing Bank	$ 1,478	$ 1,371
Treasury	2,281	2,298
Total	**$ 3,759**	**$ 3,669**

NOTE 10: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2012			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 18	$ 18
Employer Contributions & Payroll Taxes Payable	0	6	6
Unfunded FECA Liability	0	7	7
Liability for Deposit Fund & Suspense Accounts	0	(4)	(4)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**0**	**27**	**27**
Other Accrued Liabilities	0	97	97
Accrued Funded Payroll & Leave	0	21	21
Unfunded Annual Leave	0	33	33
Liability for Deposit Fund & Suspense Accounts	0	1	1
Contingent Liabilities	0	30	30
Other Liabilities	22	(10)	12
Total Other Liabilities	**$ 22**	**$ 199**	**$ 221**
FY 2011			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 25	$ 25
Employer Contributions & Payroll Taxes Payable	0	6	6
Unfunded FECA Liability	0	7	7
Liability for Deposit Fund & Suspense Accounts	0	(5)	(5)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**0**	**33**	**33**
Other Accrued Liabilities	0	95	95
Accrued Funded Payroll & Leave	0	24	24
Unfunded Annual Leave	0	39	39
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	0	0
Other Liabilities	22	(10)	12
Total Other Liabilities	**$ 22**	**$ 181**	**$ 203**

These liabilities are or will be covered by Budgetary Resources.

NOTE 11: COMMITMENTS AND CONTINGENCIES

A. Commitments

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

As of September 30, 2012 and 2011, there were approximately $5.7 billion and $5.4 billion in commitments to extend loan guarantees, respectively.

B. Contingencies

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

The following contingency-related lawsuits are reportable for the fiscal year ending on September 30, 2012.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments have been deemed probable in FY 2012. Determination has been made by the Office of General Counsel that it is reasonably possible that a $30 million unfavorable outcome could result. This amount has been accrued to the Financial Statements.

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

House Resolution 5039, the Saving America's Rural Housing Act of 2006, was enacted to resolve these issues. The Act enables Rural Development to offer borrowers a financial restructuring plan for the Multi-Family housing development which may include one or more revitalization benefits.

NOTE 12: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2012					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 784	$ 10	$ 842	$ 2,123	$ 3,759
Other	220	21	63	25	329
Total Intragovernmental Gross Cost	1,004	31	905	2,148	4,088
Less:					
Intragovernmental Earned Revenue (Note 13)	120	4	102	205	431
Intragovernmental Net Costs	**884**	**27**	**803**	**1,943**	**3,657**
Gross Costs with the Public:					
Grants	14	1,183	1,647	0	2,844
Loan Cost Subsidies	1,127	43	(154)	50	1,066
Other	(245)	33	(12)	(445)	(669)
Total Gross Costs with the Public	896	1,259	1,481	(395)	3,241
Less:					
Earned Revenues from the Public (Note 13)	727	6	780	1,919	3,432
Net Costs with the Public	**169**	**1,253**	**701**	**(2,314)**	**(191)**
Net Cost of Operations	**$ 1,053**	**$ 1,280**	**$ 1,504**	**$ (371)**	**$ 3,466**
FY 2011					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 786	$ 12	$ 786	$ 2,085	$ 3,669
Other	252	26	77	29	384
Total Intragovernmental Gross Cost	1,038	38	863	2,114	4,053
Less:					
Intragovernmental Earned Revenue (Note 13)	131	6	101	222	460
Intragovernmental Net Costs	**907**	**32**	**762**	**1,892**	**3,593**
Gross Costs with the Public:					
Grants	(1)	1,184	1,355	0	2,538
Loan Cost Subsidies	786	35	420	(185)	1,056
Other	29	38	42	(49)	60
Total Gross Costs with the Public	814	1,257	1,817	(234)	3,654
Less:					
Earned Revenues from the Public (Note 13)	720	7	709	1,864	3,300
Net Costs with the Public	**94**	**1,250**	**1,108**	**(2,098)**	**354**
Net Cost of Operations	**$ 1,001**	**$ 1,282**	**$ 1,870**	**$ (206)**	**$ 3,947**

NOTE 12: Continued

Other Disclosures

FUNCTION LEVEL TITLE	SUBFUNCTION LEVEL TITLE	BUDGET SUBFUNCTION CODE	ACTIVITY INCLUDED IN FINANCIAL STATEMENTS (where applicable)	LOAN/GRANT PROGRAMS INCLUDED IN BUDGET SUBFUNCTION CODE
Commerce & Housing	Mortgage Credit	371	Rural Housing Programs	• Single Family Housing (Direct & Guaranteed) • Multi-Family Housing (Direct & Guaranteed)
Income Security	Housing Assistance	604	Rural Housing Programs	• Domestic Farm Labor Grants • Very Low-Income Housing Repair Grants • Construction Defects • Rental Assistance Program • Other Housing Grants
Community & Regional Development	Area & Regional Development	452	Rural Housing Programs Rural Business Programs Rural Utilities Programs	• Rural Community Facility (Direct & Guaranteed) • Rural Business & Industry (Direct & Guaranteed) • Rural Economic Development (Loans & Grants) • Energy Assistance Payments • Rural Development Loan Funds • Rural Water and Environmental (Direct & Guaranteed) • Distance Learning & Telemedicine • Broadband
Energy	Energy Supply & Conservation	271 272 451	Rural Business Programs Rural Utilities Programs	• Renewable Energy • Rural Electric & Telecommunications
Agriculture	Agricultural Research & Services	352	Rural Business Programs	Research Loan
National Resources	Water Resources Conservation & Land Management Pollution Control & Abatement	301 302 304	Other	Hazardous Waste Disposal

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

NOTE 13: EARNED REVENUES

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Total
FY 2012					
Intragovernmental					
Interest Revenue from Treasury	$ 115	$ 4	$ 101	$ 204	$ 424
Other	5	0	1	1	7
Total Intragovernmental Earned Revenue	**120**	**4**	**102**	**205**	**431**
With the Public					
Interest Revenue	725	6	764	1,919	3,414
Other	2	0	16	0	18
Total Earned Revenues from the Public	**727**	**6**	**780**	**1,919**	**3,432**
Total Earned Revenues	**$ 847**	**$ 10**	**$ 882**	**$ 2,124**	**$ 3,863**
FY 2011					
Intragovernmental					
Interest Revenue from Treasury	$ 124	$ 5	$ 99	$ 221	$ 449
Other	7	1	2	1	11
Total Intragovernmental Earned Revenue	**131**	**6**	**101**	**222**	**460**
With the Public					
Interest Revenue	716	7	694	1,864	3,281
Other	4	0	15	0	19
Total Earned Revenues from the Public	**720**	**7**	**709**	**1,864**	**3,300**
Total Earned Revenues	**$ 851**	**$ 13**	**$ 810**	**$ 2,086**	**$ 3,760**

OTHER DISCLOSURES

A. Credit Reform

The amount of subsidy expense on direct loans made after 1991 equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities within a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both Federal and non-Federal sources. For a further discussion of present value refer to **Notes 1E, 1H,** and **5**.

B. Exchange Transactions with Non-Federal Sources

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

NOTE 13: Continued

Rural Housing Programs

The two largest loan programs (Single Family Housing and Rural Rental and Cooperative Housing) have a statutory basis for rates that is not less than the current average market yield on outstanding U.S. marketable obligations of comparable maturities. This rate has been determined to be the 25-year Treasury rate.

Rural Business-Cooperative Program

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

Rural Utilities Program

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

C. Exchange Transactions with Federal Sources

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

NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

	Direct	Reimbursable	Total
FY 2012			
Category A-Apportionment by Fiscal Quarter	$ 191	$ 487	$ 678
Category B-Apportionment by Special Activities	18,281	0	18,281
Total Obligations Incurred	**$ 18,472**	**$ 487**	**$ 18,959**
FY 2011			
Category A-Apportionment by Fiscal Quarter	$ 226	$ 519	$ 745
Category B-Apportionment by Special Activities	17,714	23	17,737
Total Obligations Incurred	**$ 17,940**	**$ 542**	**$ 18,482**

NOTE 15: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2012 and 2011, the amount of available borrowing authority was $23.6 billion and $26.6 billion, respectively.

NOTE 16: TERMS OF BORROWING AUTHORITY USED

Requirements for Repayments of Borrowings

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

Financing Sources for Repayments of Borrowings

Included are reestimates and cash flows (i.e., borrower loan principal repayments), appropriations received in liquidating accounts for "cash needs," residual unobligated balances, where applicable, and other Treasury borrowings.

Other Terms of Borrowing Authority Used

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

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

NOTE 17: PERMANENT INDEFINITE APPROPRIATIONS

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability for apportionment and the program accounts for reestimates related to upward adjustments of subsidy. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as "cash needs" for the liquidating accounts, and for the program accounts by information about the actual performance of a cohort or estimated changes in future cash flows of the cohort.

The period of availability for these appropriations are as follows: (1) Annual authority is available for obligation only during a specified year and expires at the end of that time; (2) Multi-year authority is available for obligation for a specified period of time in excess of one fiscal year; (3) No-year authority remains available for obligation for an indefinite period of time, usually until the objectives for which the authority was made available are achieved.

Annual and multi-year authority expires for the purpose of incurring new obligations. However, the authority is available for adjustments to obligations and for disbursements that were incurred or made during the period prior to expiration, but not recorded. Unless specifically authorized in law, the period that the expired authority is available for adjustments to obligations or for disbursements is five fiscal years (beginning with the first expired year). At the end of the fifth expired year, the authority is "cancelled." Thereafter, the authority is not available for any purpose.

NOTE 18: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Purpose

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

Amount

Obligations and expenditures may not exceed the amounts established by law. Amounts available are classified as either definite (i.e., not to exceed a specified amount) or indefinite (i.e., amount is determined by specified variable factors).

Time

The period of time during which budgetary resources may incur new obligations is different from the period of time during which the budgetary resources may be used to disburse funds.

NOTE 18: Continued

The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the permanent indefinite appropriations footnote disclosure **(Note 17).**

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

NOTE 19: EXPLANATION OF DIFFERENCES BETWEEN THE COMBINED STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2014 Budget of the United States Government, with the Actual Column completed for FY 2012, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in 2013. The Budget will be available from the Government Printing Office.

The 2013 Budget of the United States Government, with the Actual Columns completed for FY 2011, was published in 2012 and reconciled to the SBR. Reporting errors of $16 million in Budgetary Resources and Obligations are being reported. The errors are a result of changes being made to the FACTS II data, input to the Budget, after the financial statements were published. The $9 million error was a prior year negative subsidy obligation incorrectly recorded for Rural Electrification treasury symbol and the $7 million error was Rural Water and Waste Disposal obligations incorrectly recorded as current year obligations instead of prior year obligations.

Additionally, the following reconciling items were identified:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President's Budget "actual" column per OMB Circular No. A-11 but is included in the SBR.
- In FY 2011, Total Net Outlays on the SBR reports an accounting reduction for Distributed Offsetting Receipts.
- In FY 2011, Arms Initiative, Guaranteed Loan Financing Account, Army (12-21X4275) distributed offsetting receipts are reported in ARMY's SBR, but was included in Rural Development's Budget.
- Amounts due to rounding.

NOTE 19: Continued

Reconciliation Between FY 2011 Combined Statement of Budgetary Resources and the President's Budget						
Applicable Line from SBR	**Amount from SBR**	**Applicable Line from President's Budget**	**Amount from President's Budget**	**Legitimate Differences**		**Reporting Errors**
Total Budgetary Resources (Line 1910)	$26,409	Total Budgetary Resources Available for Obligation	$26,042	**$**	**351**	**$ 16**
				E	355	
				R	(4)	
Obligations Incurred (Line 2190)	$18,482	Total New Obligations	$18,395	**$**	**71**	**$ 16**
				E	67	
				R	4	
Distributed Offsetting Receipts (Line 4200)	$ (672)	Treasury Combined Statement (Receipts by Department)	$ (675)	**$**	**(3)**	None
				O	(3)	
Total Net Outlays (Line 4210)	$6,396	Outlays	$7,073	**$**	**(677)**	None
				O	(3)	
				O	(672)	
				R	(2)	

LEGEND
E = Expired Budgetary Authority
O = Distributed Offsetting Receipts
R = Rounding

NOTE 20: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2012 and 2011, the amount of undelivered orders was $31.5 billion and $35.3 billion, respectively. The remaining amount as presented on the financial statement line is attributed to delivered orders.

NOTE 21: ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

	FY 2012 Obligated	FY 2011 Obligated
Beginning Balances	$ 34,766	$ 37,145
Adjustments	0	0
Beginning Balances, as adjusted	**$ 34,766**	**$ 37,145**

NOTE 22: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2012	FY 2011
Sources of Collections		
Natural Resources Conservation Service Loan Collections	$ 3	$ 1
Total Revenue Collected	**3**	**1**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	3	1
Total Disposition of Revenue	**3**	**1**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 23: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2012	FY 2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 18,959	$ 18,482
Less: Spending Authority from Offsetting Collections and Recoveries	15,857	13,793
Obligations Net Offsetting Collections and Recoveries	3,102	4,689
Less: Offsetting Receipts	1,026	672
Net Obligations	2,076	4,017
Other Resources		
Transfers in/out without reimbursement	158	148
Imputed Financing from Costs Absorbed by Others	117	147
Other	(1,081)	(819)
Net Other Resources Used to Finance Activities	(806)	(524)
Total Resources Used to Finance Activities	**1,270**	**3,493**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	3,819	2,531
Resources that Fund Expenses Recognized in Prior Periods	(2,435)	(1,832)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	13,159	12,162
Change in Unfilled Customer Orders	138	(137)
Other	1,027	672
Resources that Finance the Acquisition of Assets	(14,973)	(14,392)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,081	819
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**1,816**	**(177)**
Total Resources Used to Finance the Net Cost of Operations	**3,086**	**3,316**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	0	0
Upward/Downward Reestimates of Credit Subsidy Expense	1,764	1,316
Other	31	0
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	1,795	1,316
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	13	14
Revaluation of Assets or Liabilities	4	(2)
Other Components Not Requiring or Generating Resources:		
Bad Debt Expense	(1,258)	(533)
Other	(174)	(164)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(1,415)	(685)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**380**	**631**
Net Cost of Operations	**$ 3,466**	**$ 3,947**

NOTE 24: FIDUCIARY ACTIVITY

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

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

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

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

Schedule of Fiduciary Activity for the Years Ended September 30, 2012 and 2011

	FY 2012	FY 2011
Fiduciary Net Assets, beginning of year	$ **107**	$ **100**
Contributions	376	480
Disbursements	376	473
Increase/Decrease in Fiduciary Fund Balances	**0**	**7**
Fiduciary Net Assets, end of year	$ **107**	$ **107**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2012 and 2011

	FY 2012	FY 2011
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 6	$ 4
Investments – Short Term	101	103
Investments – Long Term	0	0
Total Fiduciary Net Assets	$ **107**	$ **107**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 185	$ 560	$ 218	$ 595
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	185	560	218	595
Recoveries of Prior Year Unpaid Obligations	133	286	115	247
Other Changes in Unobligated Balance	(12)	(422)	(6)	(503)
Unobligated Balance from Prior Year Budget Authority, Net	306	424	327	339
Appropriations	903	0	894	0
Borrowing Authority (Notes 15 and 16)	0	2,483	0	1,608
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	68	1,592	20	1,168
Total Budgetary Resources	**1,277**	**4,499**	**1,241**	**3,115**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	1,025	3,489	1,056	2,555
Unobligated Balance, End of Year:				
Apportioned	163	730	142	549
Exempt From Apportionment	0	0	0	0
Unapportioned	89	280	43	11
Total Unobligated Balance, End of Year	252	1,010	185	560
Total Budgetary Resources	**1,277**	**4,499**	**1,241**	**3,115**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	3,520	6,343	3,942	7,065
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	(448)	0	(532)
Obligated Balance, Start of Year (Net), Before Adjustments	3,520	5,895	3,942	6,533
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	3,520	5,895	3,942	6,533
Obligations Incurred	1,025	3,489	1,056	2,555
Outlays	(1,429)	(3,262)	(1,363)	(3,030)
Change in Uncollected Customer Payments from Federal Sources	0	(8)	0	84
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(133)	(286)	(115)	(247)
Obligated Balance, End of Year	0	0	0	0
Unpaid Obligations, End of Year	2,983	6,283	3,520	6,343
Uncollected Customer Payments From Federal Sources, End of Year	(0)	(455)	0	(448)
Obligated Balance, End of Year	**2,983**	**5,828**	**3,520**	**5,895**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	971	4,075	914	2,775
Actual Offsetting Collections	(268)	(2,256)	(221)	(1,679)
Change in Uncollected Customer Payments From Federal Sources	0	(8)	0	84
Anticipated Offsetting Collections				
Budget Authority, Net	**703**	**1,811**	**693**	**1,180**
Outlays, Gross	1,429	3,262	1,363	3,030
Actual Offsetting Collections	(268)	(2,256)	(221)	(1,679)
Outlays, Net	1,161	1,006	1,142	1,351
Distributed offsetting Receipts	0	(301)	0	(167)
Agency Outlays, Net	**$ 1,161**	**$ 705**	**$ 1,142**	**$ 1,184**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 3,004	$ 1,118	$ 2,425	$ 1,675
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	3,004	1,118	2,425	1,675
Recoveries of Prior Year Unpaid Obligations	47	902	3	309
Other Changes in Unobligated Balance	1	(2,020)	(95)	(1,984)
Unobligated Balance from Prior Year Budget Authority, Net	3,052	0	2,333	0
Appropriations	1,286	0	386	0
Borrowing Authority (Notes 15 and 16)	0	5,531	0	5,929
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,203	2,511	1,055	3,097
Total Budgetary Resources	**5,541**	**8,042**	**3,774**	**9,026**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	720	7,541	770	7,908
Unobligated Balance, End of Year:				
Apportioned	617	501	890	1,117
Exempt From Apportionment	0	0	0	0
Unapportioned	4,204	0	2,114	1
Total Unobligated Balance, End of Year	4,821	501	3,004	1,118
Total Budgetary Resources	**5,541**	**8,042**	**3,774**	**9,026**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	93	19,052	95	19,154
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	(9)	0	(12)
Obligated Balance, Start of Year (Net), Before Adjustments	93	19,043	95	19,142
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	93	19,043	95	19,142
Obligations Incurred	720	7,541	770	7,908
Outlays	(712)	(7,890)	(769)	(7,701)
Change in Uncollected Customer Payments from Federal Sources	0	6	0	3
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(47)	(902)	(3)	(309)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	54	17,802	93	19,052
Uncollected Customer Payments From Federal Sources, End of Year	0	(4)	0	(9)
Obligated Balance, End of Year	**54**	**17,798**	**93**	**19,043**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	2,489	8,042	1,442	9,026
Actual Offsetting Collections	(2,043)	(4,799)	(2,219)	(4,327)
Change in Uncollected Customer Payments From Federal Sources	0	6	0	3
Anticipated Offsetting Collections				
Budget Authority, Net	**446**	**3,249**	**(777)**	**4,702**
Outlays, Gross	712	7,890	769	7,701
Actual Offsetting Collections	(2,043)	(4,799)	(2,219)	(4,327)
Outlays, Net	(1,331)	3,091	(1,450)	3,374
Distributed offsetting Receipts	0	(586)	0	(382)
Agency Outlays, Net	**$ (1,331)**	**$ 2,505**	**$ 1,450**	**$ 2,992**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 2	$ 0	$ 2	$ 26
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	2	0	2	26
Recoveries of Prior Year Unpaid Obligations	1	57	0	44
Other Changes in Unobligated Balance	0	(57)	0	(70)
Unobligated Balance from Prior Year Budget Authority, Net	3	0	2	0
Appropriations	1	0	1	0
Borrowing Authority (Notes 15 and 16)	0	2	0	19
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	21	0	7
Total Budgetary Resources	**4**	**23**	**3**	**26**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	1	20	1	26
Unobligated Balance, End of Year:				
Apportioned	0	3	0	0
Exempt From Apportionment	0	0	0	0
Unapportioned	3	0	2	0
Total Unobligated Balance, End of Year	3	3	2	0
Total Budgetary Resources	**4**	**23**	**3**	**26**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	3	164	3	227
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	(3)	0	(3)
Obligated Balance, Start of Year (Net), Before Adjustments	3	161	3	224
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	3	161	3	224
Obligations Incurred	1	20	1	26
Outlays	(2)	(28)	(1)	(46)
Change in Uncollected Customer Payments from Federal Sources	0	1	0	1
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(1)	(57)	0	(44)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	1	99	3	164
Uncollected Customer Payments From Federal Sources, End of Year	0	(2)	0	(3)
Obligated Balance, End of Year	**1**	**97**	**3**	**161**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1	23	1	27
Actual Offsetting Collections	0	(74)	0	(67)
Change in Uncollected Customer Payments From Federal Sources	0	1	0	1
Anticipated Offsetting Collections				
Budget Authority, Net	**1**	**(50)**	**1**	**(39)**
Outlays, Gross	2	28	1	46
Actual Offsetting Collections	0	(74)	0	(67)
Outlays, Net	2	(46)	1	(21)
Distributed offsetting Receipts	0	(2)	0	(4)
Agency Outlays, Net	**$ 2**	**$ (48)**	**$ 1**	**$ (25)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 106	$ 2,089	$ 117	$ 1,560
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	106	2,089	117	1,560
Recoveries of Prior Year Unpaid Obligations	22	57	43	112
Other Changes in Unobligated Balance	(45)	(118)	(53)	(115)
Unobligated Balance from Prior Year Budget Authority, Net	83	2,028	107	1,557
Appropriations	1,277	0	1,035	2
Borrowing Authority (Notes 15 and 16)	0	1,102	0	1,555
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	94	1,779	79	1,504
Total Budgetary Resources	**1,454**	**4,909**	**1,221**	**4,618**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	1,307	2,436	1,115	2,529
Unobligated Balance, End of Year:				
Apportioned	77	552	42	2,069
Exempt From Apportionment	0	0	0	0
Unapportioned	70	1,921	64	20
Total Unobligated Balance, End of Year	147	2,473	106	2,089
Total Budgetary Resources	**1,454**	**4,909**	**1,221**	**4,618**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	118	621	150	828
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	(143)	0	(154)
Obligated Balance, Start of Year (Net), Before Adjustments	118	478	150	674
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	118	478	150	674
Obligations Incurred	1,307	2,436	1,115	2,529
Outlays	(1,323)	(2,512)	(1,104)	(2,624)
Change in Uncollected Customer Payments from Federal Sources	0	29	0	11
Actual Transfers, Unpaid Obligations	108	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(22)	(57)	(43)	(112)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	188	488	118	621
Uncollected Customer Payments From Federal Sources, End of Year	0	(114)	0	(143)
Obligated Balance, End of Year	**188**	**374**	**118**	**478**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,371	2,881	1,114	3,061
Actual Offsetting Collections	(628)	(2,643)	(674)	(2,480)
Change in Uncollected Customer Payments From Federal Sources	0	29	0	11
Anticipated Offsetting Collections				
Budget Authority, Net	**743**	**267**	**440**	**592**
Outlays, Gross	1,323	2,512	1,104	2,624
Actual Offsetting Collections	(628)	(2,643)	(674)	(2,480)
Outlays, Net	695	(131)	430	144
Distributed offsetting Receipts	0	(80)	0	(80)
Agency Outlays, Net	**$ 695**	**$ (211)**	**$ 430**	**$ 64**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 29	$ 0	$ 27	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	29	0	27	0
Recoveries of Prior Year Unpaid Obligations	5	0	5	0
Other Changes in Unobligated Balance	1	0	(1)	0
Unobligated Balance from Prior Year Budget Authority, Net	35	0	31	0
Appropriations	957	0	979	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1	0	0	0
Total Budgetary Resources	**993**	**0**	**1,010**	**0**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	967	0	981	0
Unobligated Balance, End of Year:				0
Apportioned	23	0	27	0
Exempt From Apportionment	0	0	0	0
Unapportioned	3	0	2	0
Total Unobligated Balance, End of Year	26	0	29	0
Total Budgetary Resources	**993**	**0**	**1,010**	**0**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	1,234	0	1,384	0
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	0	0
Obligated Balance, Start of Year (Net), Before Adjustments	1,234	0	1,384	0
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	1,234	0	1,384	0
Obligations Incurred	967	0	981	0
Outlays	(1,179)	0	(1,126)	0
Change in Uncollected Customer Payments from Federal Sources	0	0	0	0
Actual Transfers, Unpaid Obligations	2	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(5)	0	(5)	0
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	1,019	0	1,234	0
Uncollected Customer Payments From Federal Sources, End of Year	0	0	0	0
Obligated Balance, End of Year	**1,019**	**0**	**1,234**	**0**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	958	0	979	0
Actual Offsetting Collections	(1)	0	0	0
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Anticipated Offsetting Collections	0	0		
Budget Authority, Net	**957**	**0**	**979**	**0**
Outlays, Gross	1,179	0	1,126	0
Actual Offsetting Collections	(1)	0	0	0
Outlays, Net	1,178	0	1,126	0
Distributed offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,178**	**$ 0**	**$ 1,126**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 27	$ 25	$ 52	$ 21
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	27	25	52	21
Recoveries of Prior Year Unpaid Obligations	4	29	6	23
Other Changes in Unobligated Balance	(5)	(54)	(2)	(44)
Unobligated Balance from Prior Year Budget Authority, Net	26	0	56	0
Appropriations	63	0	78	0
Borrowing Authority (Notes 15 and 16)	0	127	0	53
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	(9)	0	57
Total Budgetary Resources	**89**	**118**	**134**	**110**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	73	99	107	85
Unobligated Balance, End of Year:				
Apportioned	16	19	27	25
Exempt From Apportionment	0	0	0	0
Unapportioned	0	0	0	0
Total Unobligated Balance, End of Year	16	19	27	25
Total Budgetary Resources	**89**	**118**	**134**	**110**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	199	150	210	234
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	(40)	0	(59)
Obligated Balance, Start of Year (Net), Before Adjustments	199	110	210	175
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	199	110	210	175
Obligations Incurred	73	99	107	85
Outlays	(71)	(89)	(112)	(146)
Change in Uncollected Customer Payments from Federal Sources	0	7	0	19
Actual Transfers, Unpaid Obligations	(110)	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(4)	(29)	(6)	(23)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	87	131	199	150
Uncollected Customer Payments From Federal Sources, End of Year	0	(33)	0	(40)
Obligated Balance, End of Year	**87**	**98**	**199**	**110**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	63	118	78	110
Actual Offsetting Collections	0	(80)	0	(99)
Change in Uncollected Customer Payments From Federal Sources	0	7	0	19
Anticipated Offsetting Collections				
Budget Authority, Net	**63**	**45**	**78**	**30**
Outlays, Gross	71	89	112	146
Actual Offsetting Collections	0	(80)	0	(99)
Outlays, Net	71	9	112	47
Distributed offsetting Receipts	0	(11)	0	(8)
Agency Outlays, Net	**$ 71**	**$ (2)**	**$ 112**	**$ 39**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	**Salaries & Expense**	**Salaries & Expense**	**Salaries& Expense**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 23	$ 0	$ 33	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	23	0	33	0
Recoveries of Prior Year Unpaid Obligations	11	0	74	0
Other Changes in Unobligated Balance	(5)	0	(7)	0
Unobligated Balance from Prior Year Budget Authority, Net	29	0	100	0
Appropriations	183	0	188	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	486	0	508	0
Total Budgetary Resources	**698**	**0**	**796**	**0**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	683	0	773	0
Unobligated Balance, End of Year:				
Apportioned	2	0	4	0
Exempt From Apportionment	0	0	0	0
Unapportioned	13	0	19	0
Total Unobligated Balance, End of Year	15	0	23	0
Total Budgetary Resources	**698**	0	**796**	**0**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	164	0	222	0
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	(1)	0
Obligated Balance, Start of Year (Net), Before Adjustments	164	0	221	0
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	164	0	221	0
Obligations Incurred	683	0	773	0
Outlays	(708)	0	(756)	0
Change in Uncollected Customer Payments from Federal Sources	(5)	0	0	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(11)	0	(74)	0
Obligated Balance, End of Year				0
Unpaid Obligations, End of Year	129	0	164	0
Uncollected Customer Payments From Federal Sources, End of Year	(6)	0	0	0
Obligated Balance, End of Year	**123**	0	**164**	**0**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	669	0	696	0
Actual Offsetting Collections	(481)	0	(508)	0
Change in Uncollected Customer Payments From Federal Sources	(5)	0	0	0
Anticipated Offsetting Collections				
Budget Authority, Net	**183**	**0**	**188**	**0**
Outlays, Gross	708	0	756	0
Actual Offsetting Collections	(481)	0	(508)	0
Outlays, Net	227	0	248	0
Distributed offsetting Receipts	1	0	0	0
Agency Outlays, Net	**$ 228**	**$ 0**	**$ 248**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary		2012 Non-Budgetary Credit Program Financing Accounts		2011 Budgetary		2011 Non-Budgetary Credit Program Financing Accounts
		Other		Other		Other		Other
Budgetary Resources:								
Unobligated Balance Brought Forward, October 1	$	657	$	102	$	754	$	64
Adjustment to Unobligated Balance Brought Forward, October 1		0		0		0		0
Unobligated Balance Brought Forward, October 1, as Adjusted		657		102		754		64
Recoveries of Prior Year Unpaid Obligations		94		374		145		100
Other Changes in Unobligated Balance		0		(411)		0		(125)
Unobligated Balance from Prior Year Budget Authority, Net		751		65		899		39
Appropriations		14		0		(45)		0
Borrowing Authority (Notes 15 and 16)		0		197		0		171
Contract Authority		0		0		0		0
Spending Authority from Offsetting Collections		201		291		194		77
Total Budgetary Resources		**966**		**553**		**1,048**		**287**
Status of Budgetary Resources:								
Obligations Incurred (Note 14)		326		272		391		185
Unobligated Balance, End of Year:								
Apportioned		255		72		374		25
Exempt From Apportionment		0		0		0		0
Unapportioned		385		209		283		77
Total Unobligated Balance, End of Year		640		281		657		102
Total Budgetary Resources		**966**		**553**		**1,048**		**287**
Change in Obligated Balance:								
Unpaid Obligations, Brought Forward, October 1		2,333		1,554		2,643		1,907
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1		(15)		(124)		(13)		(145)
Obligated Balance, Start of Year (Net), Before Adjustments		2,318		1,430		2,630		1,762
Adjustment to Obligated Balance, Start of Year (Net)		0		0		0		0
Obligated Balance, Start of Year (Net), as Adjusted		2,318		1,430		2,630		1,762
Obligations Incurred		326		272		391		185
Outlays		(733)		(531)		(556)		(436)
Change in Uncollected Customer Payments from Federal Sources		0		(167)		(2)		19
Actual Transfers, Unpaid Obligations		0		0		0		0
Actual Transfers, Uncollected Customer Payments from Federal Sources		0		0		0		0
Recoveries of Prior Year Unpaid Obligations		(94)		(374)		(145)		(100)
Obligated Balance, End of Year								
Unpaid Obligations, End of Year		1,831		922		2,333		1,554
Uncollected Customer Payments From Federal Sources, End of Year		(14)		(292)		(15)		(124)
Obligated Balance, End of Year		**1,817**		**630**		**2,318**		**1,430**
Budget Authority and Outlays, Net:								
Budget Authority, Gross		215		488		148		248
Actual Offsetting Collections		(206)		(219)		(196)		(232)
Change in Uncollected Customer Payments From Federal Sources		0		(167)		(2)		19
Anticipated Offsetting Collections								
Budget Authority, Net		**9**		**102**		**(50)**		**35**
Outlays, Gross		733		531		556		436
Actual Offsetting Collections		(206)		(219)		(196)		(232)
Outlays, Net		527		312		360		204
Distributed offsetting Receipts		0		(47)		0		(31)
Agency Outlays, Net	**$**	**527**	**$**	**265**	**$**	**360**	**$**	**173**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts	2011 Budgetary	2011 Non-Budgetary Credit Program Financing Accounts
	Total	**Total**	**Total**	**Total**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 4,033	$ 3,894	$ 3,628	$ 3,941
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	4,033	3,894	3,628	3,941
Recoveries of Prior Year Unpaid Obligations	317	1,705	391	835
Other Changes in Unobligated Balance	(65)	(3,082)	(164)	(2,841)
Unobligated Balance from Prior Year Budget Authority, Net	4,285	2,517	3,855	1,935
Appropriations	4,684	0	3,516	2
Borrowing Authority (Notes 15 and 16)	0	9,442	0	9,335
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,053	6,185	1,856	5,910
Total Budgetary Resources	**11,022**	**18,144**	**9,227**	**17,182**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	5,102	13,857	5,194	13,288
Unobligated Balance, End of Year:				
Apportioned	1,153	1,877	1,506	3,785
Exempt From Apportionment	0	0	0	0
Unapportioned	4,767	2,410	2,527	109
Total Unobligated Balance, End of Year	5,920	4,287	4,033	3,894
Total Budgetary Resources	**11,022**	**18,144**	**9,227**	**17,182**
Change in Obligated Balance:				
Unpaid Obligations, Brought Forward, October 1	7,664	27,884	8,649	29,415
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(15)	(767)	(14)	(905)
Obligated Balance, Start of Year (Net), Before Adjustments	7,649	27,117	8,635	28,510
Adjustment to Obligated Balance, Start of Year (Net)	0	0	0	0
Obligated Balance, Start of Year (Net), as Adjusted	7,649	27,117	8,635	28,510
Obligations Incurred	5,102	13,857	5,194	13,288
Outlays	(6,157)	(14,312)	(5,787)	(13,983)
Change in Uncollected Customer Payments from Federal Sources	(5)	(132)	(2)	137
Actual Transfers, Unpaid Obligations	0	0	0	0
Actual Transfers, Uncollected Customer Payments from Federal Sources	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(317)	(1,705)	(391)	(835)
Obligated Balance, End of Year				
Unpaid Obligations, End of Year	6,292	25,725	7,664	27,884
Uncollected Customer Payments From Federal Sources, End of Year	(20)	(900)	(15)	(767)
Obligated Balance, End of Year	**6,272**	**24,825**	**7,649**	**27,117**
Budget Authority and Outlays, Net:				
Budget Authority, Gross	6,737	15,627	5,372	15,247
Actual Offsetting Collections	(3,627)	(10,071)	(3,818)	(8,884)
Change in Uncollected Customer Payments From Federal Sources	(5)	(132)	(2)	137
Anticipated Offsetting Collections				
Budget Authority, Net	**3,105**	**5,424**	**1,552**	**6,500**
Outlays, Gross	6,157	14,312	5,787	13,983
Actual Offsetting Collections	(3,627)	(10,071)	(3,818)	(8,884)
Outlays, Net	2,530	4,241	1,969	5,099
Distributed offsetting Receipts	1	(1,027)	0	(672)
Agency Outlays, Net	**$ 2,531**	**$ 3,214**	**$ 1,969**	**$ 4,427**

OTHER ACCOMPANYING INFORMATION (Unaudited)

Amounts Presented in Millions

	2012 Budgetary	2012 Non-Budgetary	2011 Budgetary	2011 Non-Budgetary
Schedule of Spending				
What Money is Available to Spend?				
Total Resources	$11,022	$18,144	$9,227	$17,182
Less Amount Available but Not Agreed to be Spent	1,153	1,877	1,506	3,785
Less Amount Not Available to be Spent	4,767	2,410	2,527	109
Total Amounts Agreed to be Spent	$ 5,102	$13,857	$5,194	$13,288
How Was the Money Spent?				
Category 11				
Full-time, Non-Wage-Board U.S.	$ 361	$ 0	$ 376	$ 0
Time-off Awards	1	0	1	0
Temporary Full-Appointments Non-Wage-Board U.S.	1	0	3	0
Part-Time Appointments Non-Wage-Board U.S.	2	0	3	0
Cash and Suggestion Awards	1	0	0	0
Other Awards	2	0	1	0
Non-Wage Board Employees	1	0	1	0
Lump Sum Payment for Annual Leave-Permanent Appointments Non-Wage-Board Employees	7	0	3	0
Category 12				
Federal Employee Government Life Insurance-Agency Contribution	1	0	1	0
Federal Employee Health Benefits-Agency Contribution	38	0	37	0
Civil Service Retirement System 7% Coverage Code 1-Agency Contribution	5	0	6	0
Cost of Living Allowance	1	0	1	0
Office of Workers' Compensation Payment	3	0	0	0
Hospital Insurance Tax-Agency Contribution	6	0	5	0
Transitional Retirement Contribution-Civil Service	1	0	1	0
Transitional Old Age Survivor	1	0	1	0
FERS Regular Contributions	34	0	33	0
Full OASDI Contributions-FERS (K)	17	0	16	0
Thrift Savings Plan (TSP) Government Basic Contribution	3	0	3	0
TSP Government Matching Contribution	10	0	9	0
Separation Incentive	15	0	0	0
Category 21				
Common Carrier-Domestic	1	0	2	0
Mileage Allowance-Domestic	1	0	1	0
Per Diem-Domestic	3	0	5	0
Other Travel-Domestic	0	0	1	0
Automobile Rental-Sedan and Station Wagon Rental General Service Administration	5	0	4	0
Category 23				
Building Rental-General Services Administration	1	0	2	0
Building Rental Non-General Services Administration	21	0	15	0
Postage and Related Fees	0	0	1	0
Category 24		0		0
Printing, Binding, Etc.	3	0	2	0
Category 25				
Other Services	751	1,524	806	932
Contractual Services Performed by Other Agencies	1	0	1	0
Training, Tuition, Fees, Etc.	1	0	1	0
Repair, Alteration, or Maintenance of Space (Interior)	1	0	1	0
Repair, Alteration, or Maintenance of Office Equipment	1	0	1	0
Contractual Services-Other	8	0	13	0
Agreements	52		73	0
Cooperating State Agency Agreements	1	0	0	0
Research Agreements	2	0	1	0
Other Agreements	20	0	16	0
National Information Technology Center-Kansas City-Information Technology Services	11	0	4	0
Miscellaneous Services	2	0	2	0
Equipment Use Estimate	(1)	0	2	0
Category 26				
Supplies-Energy Related	1	0	0	0
Supplies and Materials-General	1	0	1	0
Supplies and Materials-Office-Central Supply Stores	1	0	1	0

Category 31				
Equipment	0	0	3	0
IT Hardware	1	0	0	0
Non-Capitalized Property Less than $5,000	1	0	1	0
IT Software-Non-Capitalized and Accountable	0	0	1	0
IT Software (PC Only) Capitalized	0	0	1	0
Category 33				
Investments and Loans	18	9,417	20	9,532
Category 41				
Grants, Subsidies, and Contributions	4,590	0	4,106	8
Category 43				
Interest and Dividends	148	3,371	198	3,511
Total Spending	$6,157	$14,312	$ 5,787	$13,983
Amounts Remaining to be Spent	(1,055)	(455)	(593)	(695)
Total Amounts Agreed to be Spent	$5,102	$13,857	$ 5,194	$13,288

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse

Email: usda.hotline@oig.usda.gov
Phone: 800-424-9121 Fax: 202-690-2474

Bribes or Gratuities:
202-720-7257 (24 hours a day)