



United States Department of Agriculture

# Office of Inspector General





# Rural Development's Financial Statements for Fiscal Years 2013 and 2012

Audit Report 85401-0003-11

## What Were OIG's Objectives

Our objectives were to determine whether (1) the consolidated financial statements present information fairly, in all material respects, and in accordance with accepted principles; (2) internal control objectives over financial reporting were met; (3) transactions and events potentially material to the financial statements were compliant; and (4) information was materially consistent with other sources.

## What OIG Reviewed

We conducted our audit 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.

## What OIG Recommends

This report does not provide recommendations.

## OIG performed the annual audit of Rural Development's consolidated financial statements for fiscal years 2013 and 2012.

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### What OIG Found

Rural Development received an unmodified opinion from the Office of Inspector General's (OIG) audit of Rural Development's consolidated financial statements. We determined that the agency's financial statements for the 2013 and 2012 fiscal years present Rural Development's financial position as of September 30, 2013 and 2012 fairly in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources.

Our consideration of Rural Development's internal control over financial reporting identified no material weaknesses. However, our consideration of compliance with laws and regulations noted an instance of noncompliance with the Improper Payments Elimination and Recovery Act of 2010.





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



DATE: December 10, 2013

AUDIT  
NUMBER: 85401-0003-11

TO: Doug O'Brien  
Acting Under Secretary  
Rural Development

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 2013 and 2012

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified 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.



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# **Independent Auditor's Report**

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Doug O'Brien  
Acting Under Secretary  
for Rural Development

We have audited the consolidated financial statements of Rural Development for fiscal years 2013 and 2012. In connection with our fiscal year 2013 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.

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.

## **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Rural Development which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (herein referred to as "financial statements"). The objective of our audit was to express an opinion on the fair presentation of these financial statements.

## **Management's Responsibility for the Financial Statements**

Rural Development's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements 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 Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial



statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion on the Financial Statements**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Development as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 25 to the financial statements for fiscal year 2013, Rural Development changed its methodology for valuing the Allowance for Loss for direct loans made pre-1992, and are now reporting these loans at net realizable value. This change from the previous valuation methodology resulted in a decrease to the Allowance for Loss of approximately \$3.8 billion. This change affected the Consolidated Balance Sheet, Consolidated Net Cost, Consolidated Statement of Changes in Net Position, Note 23, and is also referred to in Notes 1 and 5 for fiscal year 2013.

Our opinion is not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Rural Development's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. The other information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Development's internal control or on management's assertion on the internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of Rural Development's internal control or on management's assertion on internal control included in the MD&A.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Rural Development's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

OMB Bulletin 14-02 requires us to describe significant deficiencies and material weaknesses identified during our audit; and in the event that no material weaknesses were identified, to so report. For both our fiscal years 2013 and 2012 financial statement audits, our work disclosed no material weaknesses.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Development's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which Rural Development's financial management systems did not substantially comply with FFMIA.

In Report 50024-0004-11, *U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012*, issued March 14, 2013, the Office of Inspector General identified Rural Development's Rental Assistance Program was noncompliant with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA)<sup>1</sup> for a second consecutive year. Specifically, the Rental Assistance Program did not meet its reduction target for fiscal year 2012. Exhibit B provides additional information regarding this noncompliance.

## Management's Responsibility for Internal Control and Compliance

Rural Development management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the FMFIA, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring Rural Development's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

## Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether Rural Development's financial management systems substantially comply with the FFMIA requirements referred to above, (3) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (4) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial

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<sup>1</sup> IPERA amended the "Improper Payments Information Act of 2002," Public Law 107-300.

reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to Rural Development. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

### **Management's Response**

Management's response to the report is presented in exhibit C. We did not audit Rural Development's response and, accordingly, we express no opinion on it.

### **Status of Prior Years' Deficiencies and Noncompliance Issues**

We have reviewed the status of Rural Development's corrective actions with respect to the prior year's Independent Auditor's Report, dated November 13, 2012. The status is presented in exhibits A and B.

### **Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters**

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Rural Development's internal control or on compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering Rural Development's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Gil H. Harden  
Assistant Inspector General  
for Audit  
December 10, 2013

## Abbreviations

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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
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
TR .....	Technical Release

## **Exhibit A: Summary of Prior Years' Recommendations**

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**Report 85401-0001-11,**<sup>2</sup> *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,<sup>3</sup> 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 Status**

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.

Recommendations 1 and 2 are 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. On November 6, 2012, OCFO accepted final action on Recommendation 1. 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.

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<sup>2</sup> Recommendations were made in Report 85401-0001-11, *Rural Development's Financial Statements for Fiscal Years 2011 and 2010* (November 10, 2011).

<sup>3</sup> TR 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies Under the Federal Credit Reform Act*.

## **Exhibit A: Summary of Prior Years' Recommendations**

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### **OIG Results**

Closed. The Office of Inspector General did not report any significant deficiencies or material weaknesses related to credit reform for fiscal years 2013 and 2012.

## **Exhibit B: Status of Prior Year Noncompliance Finding**

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**Report 85401-0002-11**, *Rural Development's Financial Statements for Fiscal Years 2012 and 2011*, dated November 13, 2012.

### **Reported Noncompliance**

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 (OIG) identified two instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, evaluators of 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. This information was carried forward as a noncompliance in the Compliance and Other Matters portion of Report 85401-0002-11.

### **Status**

In Report 50024-0004-11, *U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012*, issued March 14, 2013, OIG identified Rural Development's Rental Assistance Program was noncompliant for a second consecutive year. Specifically, the Rental Assistance Program did not meet its reduction target for fiscal year 2012.

For fiscal year 2013, the Department indicated that Rural Development's Rental Assistance Program is now compliant with IPERA and met its reduction target. OIG will issue a separate report on the Department's compliance with IPERA for fiscal year 2013 during fiscal year 2014.



## Exhibit C: Agency Response

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United States Department of Agriculture

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Rural Development

Office of the  
Under Secretary

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

FROM: Douglas J. O'Brien  
Acting Under Secretary

SUBJECT: Response to Draft Audit Report on Rural Development's  
Fiscal Year 2013 General-Purpose Financial Statements

DEC 5 2013

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2013 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.

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**RURAL DEVELOPMENT  
FISCAL YEARS 2013 and 2012  
FINANCIAL STATEMENTS  
PREPARED BY RURAL DEVELOPMENT**





# U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT



*"Committed to the future of rural communities"*

Fiscal Year  
2013 and 2012

## 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.

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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2013 AND 2012

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# 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 319,547 borrowers through direct programs and 779,408 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 21<sup>st</sup> 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) 2013 than in FY 2012. There was an increase in the direct portfolio from \$92.4 billion to \$95.3 billion and the guaranteed portfolio from \$84.5 billion to \$98.8 billion.

<b>Total Loan Portfolio as of September 30, 2013</b> <b>FY's 2011 Through 2013</b> <b>(Dollars in Billions)</b>			
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Direct Loans</b>			
Single Family Housing	\$15.4	\$15.5	\$15.2
Multi-Family Housing	11.4	11.6	11.9
Community Facilities	3.8	4.4	4.8
Water & Environmental	11.9	12.1	12.2
Electric	42.2	43.3	45.8
Telecommunications	4.5	4.6	4.5
Business Programs	0.9	0.9	0.9
<b>Total Direct</b>	<b>90.1</b>	<b>92.4</b>	<b>95.3</b>
<b>Guaranteed Loans</b>			
Single/Multi-Family Housing	\$62.0	\$75.8	\$90.5
Community Facilities	1.0	1.2	1.2
Water & Environmental	0.1	0.1	0.1
Electric	0.3	0.3	0.3
Business Programs	7.0	7.1	6.7
<b>Total Guaranteed</b>	<b>70.4</b>	<b>84.5</b>	<b>98.8</b>
<b>Total Loan Portfolio</b>	<b>\$160.5</b>	<b>\$176.9</b>	<b>\$194.1</b>

## Rural Development Programs

### RURAL HOUSING SERVICE (RHS)

**Single Family Housing (SFH) programs** improve the economy and quality of life in rural America. Through these programs, Rural Development has provided 3.7 million direct and

guaranteed loans to low and moderate income families in rural areas. These loans are made to purchase, build, improve, repair, and rehabilitate homes.

Since 1950, the Single-Family Housing Direct (SFH-D) program has made home ownership possible to rural residents. Loans repayable over 33 to 38 years feature a subsidy that can reduce the effective interest rate to as low as one 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, along with flexible financing tools to complete the revitalization, 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 and grants 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.

Community Programs (CP) has chosen health care, fire and rescue services, public safety facilities, and educational facilities as proxies for measuring the program's effectiveness. These three areas have historically been the areas of greatest demand for funding. In FY 2013, CP enjoyed a banner year, exceeding the targets in each of its performance measures.

The following chart shows key performance indicators, targets and results for Housing and Community Facilities for FY 2013.

<b>HOUSING AND COMMUNITY FACILITIES PERFORMANCE SCORECARD FOR FY 2013</b>			
<b>Single Family Housing</b>	FY 2013 Target	FY 2013 Actual	Results
Homeownership opportunities provided	183,303*	170,055	Met
Delinquency Rate (Direct Loans)	Within 200 basis Points of Federal Housing Administration (FHA) Rate	379 Basis points above FHA	Unmet
Delinquency Rate (Guaranteed Loans)	Within 50 basis points of FHA Rate	71 Basis points below FHA	Exceeded
<b>Multi-Family Housing</b>			
Number of projects with accounts more than 180 days past due	Less than 265	232	Exceeded
Total number of units selected for funding for new construction	373	358	Unmet
Amount of leveraged funds in MFH for new construction and rehabilitation	\$600,000,000	\$605,542,097	Exceeded
<b>Community Facilities</b>			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	4.5%	5.4%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	2.7%	3.4%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	4.0%	9.3%	Exceeded

\* The FY 2013 performance goal for Homeownership Opportunities was 183,303 with a +/- 20 percent met range (146,642 to 219,964).

RHS again provided a record number of single-family loans/guarantees despite another significant reduction in staffing. This was due in large part to a significant increase in assistance provided to rural families by loans guaranteed which increased from 145,109 guarantees of loans totaling \$19.2 billion to 162,943 totaling \$22.4 billion. SFH-G also met its delinquency performance goals, with delinquency (net of foreclosures) 71 basis points below FHA, exceeding the target of within 50 basis points of FHA.

SFH-D did not meet its delinquency goal of being within 200 basis points of FHA. However, the SFH-D program measurement methodology and exterior economic forces affecting the low-income rural families served by this flagship program are important factors requiring explanation.

The performance of the SFH-D portfolio is solid evidence that the economic downturn beginning in 2008 had a significant impact on rural America; that recovery in rural areas is much slower; and that homeowners with the lowest incomes are impacted to a greater degree. In addition, SFH-D borrowers are encouraged and sometimes required to graduate by refinancing their loan, which results in a run-off of the best performing loans. Servicing actions such as delinquency workout agreements and moratoriums are offered to give families every opportunity to remain homeowners as they work through financial difficulties. Loans under these servicing actions are considered delinquent although they are performing according to agreement. The decreased funding in the program is also a factor, as better performing new loans are not available to offset the older delinquent loans.

MFH was unable to meet its goal regarding the construction of new affordable housing units. The goal was based upon the number of units obligated through Rural Development's Farm Labor Housing funding notice early in the year, however, over the course of the year funding for certain projects was deobligated after the owner decided not to move forward with construction.

In FY 2013, CF continued to experience a surge in funding of large complex community infrastructure investments. As a result, CF exceeded its performance goals for all three goals by large margins.

## **RURAL UTILITIES SERVICE (RUS)**

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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.<sup>1</sup>

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 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

<sup>1</sup> National Rural Electric Cooperative Association "U.S. Electric Utility Overview"  
<http://www.nreca.coop/about-electric-cooperatives/>

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 2013.

<b>UTILITIES PERFORMANCE SCORECARD FOR FY 2013</b>			
<b>Electric Loans – Direct and Guaranteed</b>	FY 2013 Target	FY 2013 Actual	Results
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	6.1	8.7	Exceeded
<b>Telecommunications Loans</b>			
Number of borrowers/subscribers receiving new or improved telecommunication services	50,000	104,773	Exceeded
<b>Distance Learning and Telemedicine</b>			
Number of rural counties receiving distance learning services	190	0	Unmet
Number of rural counties receiving telemedicine facilities	190	0	Unmet
<b>Farm Bill Broadband</b>			
Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	40,000	14,418	Unmet
<b>Water and Environmental</b>			
Number of borrowers/subscribers receiving new or improved service from agency funded water facility (millions)	1.4	1.8	Exceeded

RUS exceeded its performance goals for WEP and Electric and Telecommunications loans. DLT Grant program goals were not met however because no obligations were made for these programs in FY 2013. RUS also did not meet its performance goals for Farm Bill Broadband loans in 2013. This is due to the budget reduction and rescission of carryover funds which occurred in March 2013. Performance measure targets were calculated based on the anticipated availability of millions of dollars in carryover funding.

## **RURAL BUSINESS-COOPERATIVE SERVICE (RBS)**

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**RBS** 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 that can be 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 people 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** 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** 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 eligible recipients.

**The Rural Micro Entrepreneur 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 micro entrepreneurs and Microenterprises in rural areas.

**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 energy consumption and greenhouse gas emissions.

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

**Section 9005 Advanced Biofuel Producer Payments** are provided to eligible 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 can be used for working capital or feasibility studies. These grants for expansion, modernization or start-up, enhance the local job market mix and improve the local tax base. As a result, the overall local rural economy is stimulated, jobs are created, and quality of life improves.

**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 help strengthen the rural economy and assist farmers, ranchers, and rural business owners across the nation in establishing and marketing cooperatives.

**Delta Health Care Services** provide financial assistance to address the continued unmet health needs in the Delta Region through cooperation among health care professionals, institutions of higher education, research institutions, and other individuals and entities in the Delta Region. Grants are made to consortiums, a combination or group of regional institutions of higher education, academic health and research institutes, and economic development entities located in the Delta Region that have experience in addressing the health care issues in the region. Grant funds may be used to finance development of health care services, health education programs, or health care job training programs; development and formation of a cooperative to produce and deliver health care services, education and job training programs; or expansion of public health-related facilities in the Delta Region to address longstanding and unmet health needs of the region.

**Small Minority Producer Grants** assist small minority agricultural producers in rural areas by funding cooperative development centers and cooperatives or associations of cooperatives whose primary focus is to provide assistance to such producers. The governing board and/or

membership must be comprised of at least 75 percent socially disadvantaged members. Grants may be used for developing business plans, conducting feasibility studies, or developing marketing plans for farmers, ranchers, loggers, agricultural harvesters, and fishermen.

The following chart shows key performance indicators, targets and results for Business and Cooperative for FY 2013.

<b>BUSINESS AND COOPERATIVE PERFORMANCE SCORECARD FOR FY 2013</b>			
<b>Rural Business-Cooperative Programs (Direct &amp; Guaranteed combined)</b>	FY 2013 Target	FY 2013 Actual	Results
Number of jobs created or saved through USDA financing of businesses	39,612	39,369	Met
Small businesses and cooperatives assisted	388	2,270	Exceeded
<b>B &amp; I Guaranteed Loans and Grants</b>			
Delinquency rate (excluding bankruptcy cases)	7.0%	5.5%	Exceeded
<b>Renewable Energy and Efficiency</b>			
Millions of kWh generated	5,900	14,734	Exceeded
Millions of gallons of biofuel	800	1,379	Exceeded

In FY 2013, RBS met its target for jobs created or saved and exceeded all other performance targets. The jobs target was set at 39,612 at the start of the fiscal year. RBS programs created or saved 39,369 jobs. This is within the allowable data range for met using a tolerance measure of 5 percent. The total businesses assisted actual result was 2,270. Additionally, the B&I guaranteed loan program had the lowest delinquency rate on record at 5.5 percent.

The exceptional performance results are due in part to continued efforts to increase efficiencies and impact by targeting resources to projects of highest priority while emphasizing quality production in loan and grant making. RBS also emphasized the importance of accurately collecting and reporting performance measures data and additional guidance and training was provided to agency field offices to reinforce data integrity. This combined with weekly monitoring by the National Office allowed RBS to improve the quality of its performance measures data for FY 2013.

RBS far exceeded the renewable energy performance targets due to the enhancements mentioned above as well as additional funding that was made available in FY 2013.

## Future Opportunities and Challenges

Rural America has unique challenges in meeting the needs of rural communities. As the only Federal Department with the primary responsibility of serving rural areas, Rural Development takes our responsibility to the continued revitalization of Rural America seriously. Rural Development continually evaluates its business practices to ensure they are efficient and effective,

resulting in improved processes, policies, and technologies to deliver our programs. Some opportunities and challenges resulting from these changes are summarized in the following areas:

## Budget Challenges and a Transforming Workplace

Rural Development faces widespread budget challenges that affect all of our program and administrative areas. Difficult decisions must be made so that the agency can continue to meet its mission-critical responsibilities while also dealing with significant budgetary cuts and reduction in staff. Rural Development recognizes our responsibility to help shoulder the burden of deficit reduction and has pursued continual process improvements to ensure that our Agency operates as a responsible steward of taxpayer dollars.

The Agency has embraced multiple streamlining efforts to reduce operating costs. Rural Development contributed to savings under the Secretary's Blueprint for Stronger Service by consolidating and reorganizing its field office structure, which included office closures throughout the country. These continued efforts are expected to result in additional and substantial savings over the next few years. Concurrently, Rural Development also greatly reduced our General Support Budget.

In terms of staff, Rural Development's workforce has been significantly reduced over the last few years due to budget cuts. Those reductions will produce significant savings in staff costs moving forward, however, a severely reduced work force may risk the integrity of the delivery of programs and servicing of a rapidly growing portfolio. This type of dynamic strains the Agency's ability to responsibly deliver and service programs provided for and funded by Congress. As a result Rural Development has used this opportunity to review critical internal control functions and to strategically fill positions that will ensure we have appropriate and adequate staff to maintain the integrity of our portfolio.

Our best efforts to prepare for additional funding and staff reductions cannot prevent the negative impact of across-the-board reductions in every Rural Development program. For example, the reduced level of program funding may negatively impact rental assistance for many low income rural residents living in multi-family housing projects.

## Technology and Projects

Rural Development is continually looking for ways to improve, innovate, and modernize. RHS recently directed each State office to centralize its loan guarantee process for the SFH-G loan program. The guaranteed loan process was centralized into one entry point, and work was electronically distributed. This effort deployed technology for a process improvement as a remedy for staff reductions and the result has been a success. The consolidation of loan processing services maximized efficiencies, reduced staff, ensured consistent audit compliance, and provided flexibility to the states.



RHS also instituted an automation project known as “Automated Loan Closing” or “ALC,” that eliminated the need for staff to process paper checks for guarantee fees and double entry of data. It automated the scanning of critical loan closing documents and enabled an e-signature feature that eliminated the need for staff to print and sign a Loan Note Guarantee.

RUS is undergoing a business process re-engineering (BPR) in electric and telecom programs to consolidate and streamline program activities, both in the field and in the national office as a result of exponential increases in the portfolio size, coupled with diminishing staff resources. This activity includes increased use of technology, staff reorganization and retraining, and potential revision of program regulations to increase the efficiency and effectiveness of program delivery.

RBS established a field structure, of ten regions that allows the Administrator to provide direction and oversight for all RBS programs nationally. Two Regional Coordinators (East and West), and ten RBS Team Leaders (State program directors) now provide guidance to the State RBS program directors in their regions. This regional structure improves agency efficiency and effectiveness, which is vital as RBS deals with reductions to budget and staffing levels.

The Comprehensive Loan Program (CLP) is an ongoing information technology initiative to upgrade Rural Development program delivery systems. 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 improve data integrity. They will also be able to quickly add new loan and grant programs. Since Rural Development participates with other USDA agencies in the Financial Management Modernization Initiative (FMML), a state-of-the-art system that provides online, real-time transaction capabilities and access for financial data, a future consideration is to move program data to FMML.

## **Entity’s Systems, Controls, and Legal Compliance**

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### **Management Assurances**

**Federal Managers’ Financial Integrity Act (FMFIA).** The purpose of the FMFIA is to promote the development of systematic and proactive measures to ensure management accountability for the effectiveness and efficiency of program operations. Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA, respectively, for the period ended September 30, 2013. Based on the results of the evaluations, Rural Development provides reasonable assurance that internal controls are operating effectively.

**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 2013. However, one new significant deficiency was identified during the FY 2013 Office of Management and Budget (OMB) Circular No. A-123 Appendix A (Management Accountability and Control) assessment period. Business process, Interest Revenue from the Public, failed testing controls for revenue reporting and approval procedures. Corrective Action Plan (CAP), 2013.85.84b.002, was established. The estimated completion date for resolution is April 30, 2015.

**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.

In FY 2013, no new material weaknesses and/or significant deficiencies were identified. An Information Technology (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, 2016.

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

**Federal Financial Management Improvement Act (FFMIA).** The purpose of the 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, 2013. 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 Payments Elimination and Recovery Act of 2010 (IPERA). One new non-compliance IPERA finding was identified during FY 2013 and two existing FY 2012 IPERA findings are outstanding.

- IPERA – Rental Assistance Program (RAP) – Office of Inspector General (OIG) Audit #50024-0001-11, issued March 2012, - improvements needed in the management review and documentation of rental assistance programs improper payment issues
- IPERA – SFH Grants Program – OIG Audit #50024-0001-11, issued March 2012 - improvements needed in the management review and documentation of SFH grant programs IPERA eligibility issues
- IPERA – RAP – OIG Audit #50024-0004-11, issued March 2013 – the RAP did not comply with IPERA for two consecutive years and failed to implement improvements to meet annual reduction targets

## **Improper Payments Elimination and Recovery Act of 2010**

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The IPERA of 2010, which amends the Improper Payments Information Act of 2002 (IPIA), 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.

	<b>REPORTED IN FY 2011</b>	<b>REPORTED IN FY 2012</b>	<b>REPORTED IN FY 2013</b>
Outlays	\$1,020.0 million	\$1,078.2 million	\$1,108.0 million
Improper Payment Rate %	1.48%	3.44%	1.79%
Improper Payments (\$)	\$15.1 million	\$37.1 million	\$19.9 million
Year of data sampled	FY 2010	FY 2011	FY 2012

The future target rates for improvement are:

<b>FUTURE TARGETS FOR IMPROVEMENT</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Estimated Outlays*	\$1,163.4 M	\$1,221.6 M	\$1,282.7 M
Reduction Target Rate	1.7%	1.6%	1.5%

\*Based on an anticipated increase of 5% per year.

The IPIA survey results for this year were approximately 1.65 percent lower than last year. In the past three years, the industry groups have been aggressively providing training to the management agents on the documentation and calculation of tenant incomes. This training was the result of past corrective action plans where the Agency and industry groups met to discuss ways to make improvements in the IPIA error rate.

## Variance Allowances

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

### Liability:

Rural Development is reporting an increase in the Liabilities to Others balance as reported in the FY 2013 Consolidated Balance Sheet. During FY 2013, Rural Development analyzed the performance of Pre-1992 direct loans receivable and defaulted guaranteed loans. Rural Development concluded that using the average rate of the last five years of write-offs more accurately estimated uncollectible amounts; thereby, providing a better valuation of Rural Development's Pre-1992 loans receivable.

### Gross Costs:

Rural Development is reporting a decrease in Gross Costs as reported in the FY 2013 Consolidated Statement of Net Cost. During FY 2013, Rural Development analyzed the performance of Pre-1992 direct loans receivable and defaulted guaranteed loans. Rural Development concluded that using the average rate of the last five years of write-offs more accurately estimated uncollectible amounts; thereby, providing a better valuation of Rural Development's Pre-1992 loans receivable.

#### Total Budgetary Resources:

Rural Development is reporting an increase in Total Budgetary Resources as reported in the FY 2013 Combined Statement of Budgetary Resources. Rural Development received an appropriation for the liquidating Rural Electric and Telecommunications (RET) program to facilitate the Cushion of Credit (COC) transfer balance.

#### Recoveries of Prior Year Unpaid Obligations:

Rural Development is reporting a decrease in Recoveries of Prior Year Unpaid Obligations as reported in the FY 2013 Combined Statement of Budgetary Resources. Rural Development experienced a decrease of prior year cancellations of RET, DLT, and Broadband programs.

#### Budget Authority:

Rural Development is reporting an increase in Budget Authority as reported in the FY 2013 Combined Statement of Budgetary Resources. Rural Development received an appropriation for the RET program as it relates to COC and reported a reduction of prior year cancellations of RET, DLT, and Broadband programs.

#### Agency Outlays:

Rural Development is reporting an increase in Net Outlays as reported in the FY 2013 Combined Statement of Budgetary Resources. The increase is a result of recording COC transfer within the RET programs and to a lesser extent the decrease in the Reestimates received in the Guaranteed Rural Housing program and the Certificates of Beneficial Ownership (CBO) payment for RET programs.

### 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, 2013 AND 2012  
(In Millions)**

	2013	2012
<b>Assets (Note 2):</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 18,945	\$ 17,610
Accounts Receivable, Net (Note 4)	0	0
Other (Note 7)	0	0
<b>Total Intragovernmental</b>	<b>18,945</b>	<b>17,610</b>
Loans Receivable and Related Foreclosed Property, Net (Note 5)	89,445	83,604
General Property, Plant and Equipment, Net (Note 6)	46	50
Other (Note 7)	37	37
<b>Total Assets</b>	<b>108,473</b>	<b>101,301</b>
<b>Liabilities (Note 8):</b>		
<b>Intragovernmental:</b>		
Accounts Payable	3	4
Debt (Note 9)	89,394	83,869
Resources Payable to Treasury (Note 1M)	9,633	7,223
Downward Reestimates Payable to Treasury General Fund (Note 1N)	1,092	746
Other (Note 10)	23	27
<b>Total Intragovernmental</b>	<b>100,145</b>	<b>91,869</b>
Accounts Payable	26	26
Loan Guarantee Liability (Note 5)	4,573	4,114
Federal Employee and Veteran Benefits (Note 8)	40	38
Other (Note 10)	184	194
<b>Total Liabilities</b>	<b>104,968</b>	<b>96,241</b>
Commitments and Contingencies (Note 11)		
<b>Net Position:</b>		
Unexpended Appropriations	4,643	5,958
Cumulative Results of Operations	(1,138)	(898)
<b>Total Net Position</b>	<b>3,505</b>	<b>5,060</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 108,473</b>	<b>\$ 101,301</b>

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, 2013 AND 2012  
(In Millions)**

	2013	2012
<b>Strategic Goal:</b>		
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	\$ 3,800	\$ 3,759
Other	305	329
Total Intragovernmental Gross Costs	4,105	4,088
Less: Intragovernmental Earned Revenue (Note 13)	540	431
<b>Intragovernmental Net Costs</b>	<b>3,565</b>	<b>3,657</b>
Gross Costs with the Public:		
Grants	2,717	2,844
Loan Cost Subsidies	1,133	1,066
Other	(3,125)	(669)
Total Gross Costs with the Public	725	3,241
Less: Earned Revenues from the Public (Note 13)	3,560	3,432
<b>Net Costs with the Public</b>	<b>(2,835)</b>	<b>(191)</b>
<b>Net Cost of Operations</b>	<b>\$ 730</b>	<b>\$ 3,466</b>

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, 2013 AND 2012  
(In Millions)**

	2013	2012
<b>Cumulative Results of Operations</b>		
Beginning Balances:	\$ (898)	\$ (456)
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
<b>Beginning Balances, as Adjusted</b>	<b>(898)</b>	<b>(456)</b>
Budgetary Financing Sources:		
Other Adjustments	(213)	(155)
Appropriations Used	5,492	5,135
Transfers-In/Out Without Reimbursement	91	(1,150)
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	0	158
Imputed Financing	111	117
Other	(4,991)	(1,081)
<b>Total Financing Sources</b>	<b>490</b>	<b>3,024</b>
Net Cost of Operations	(730)	(3,466)
Net Change	(240)	(442)
<b>Total Cumulative Results of Operations</b>	<b>\$ (1,138)</b>	<b>\$ (898)</b>
<b>Unexpended Appropriations</b>		
Beginning Balances:	\$ 5,958	\$ 7,238
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
<b>Beginning Balances, as Adjusted</b>	<b>\$ 5,958</b>	<b>\$ 7,238</b>
Budgetary Financing Sources:		
Appropriations Received	4,408	3,887
Appropriations Transferred In/Out	3	(2)
Other Adjustments	(234)	(30)
Appropriations Used	(5,492)	(5,135)
<b>Total Budgetary Financing Sources</b>	<b>(1,315)</b>	<b>(1,280)</b>
<b>Total Unexpended Appropriations</b>	<b>4,643</b>	<b>5,958</b>
<b>Net Position</b>	<b>\$ 3,505</b>	<b>\$ 5,060</b>

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, 2013 AND 2012  
(In Millions)**

	2013		2012	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 5,920	\$ 4,287	\$ 4,033	\$ 3,894
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	5,920	4,287	4,033	3,894
Recoveries of Prior Year Unpaid Obligations	264	814	317	1,705
Other Changes in Unobligated Balance	(1,032)	(1,711)	(65)	(3,082)
Unobligated Balance from Prior Year Budget Authority, Net	5,152	3,390	4,285	2,517
Appropriations	4,672	0	4,684	0
Borrowing Authority (Notes 15 and 16)	0	9,520	0	9,442
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,410	9,117	2,053	6,185
<b>Total Budgetary Resources</b>	<b>\$ 12,234</b>	<b>\$ 22,027</b>	<b>\$ 11,022</b>	<b>\$ 18,144</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	\$ 6,751	\$ 14,263	\$ 5,102	\$ 13,857
Unobligated Balance, End of Year:				
Apportioned	2,468	4,213	1,153	1,877
Exempt From Apportionment	0	0	0	0
Unapportioned	3,015	3,551	4,767	2,410
Total Unobligated Balance, End of Year	5,483	7,764	5,920	4,287
<b>Total Budgetary Resources</b>	<b>\$ 12,234</b>	<b>\$ 22,027</b>	<b>\$ 11,022</b>	<b>\$ 18,144</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	\$ 6,292	\$ 25,725	\$ 7,664	\$ 27,884
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	6,751	14,263	5,102	13,857
Outlays	(8,056)	(14,631)	(6,157)	(14,312)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(264)	(814)	(317)	(1,705)
Unpaid Obligations, End of Year	4,723	24,543	6,292	25,725
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(20)	(900)	(15)	(767)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	157	(5)	(132)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(20)	(743)	(20)	(900)
Memorandum Entries				
Obligated Balance, Start of Year	6,272	24,825	7,649	27,117
Obligated Balance, End of Year	4,703	23,800	6,272	24,825
<b>Budget Authority and Outlays, Net:</b>				
Budget Authority, Gross	\$ 7,082	\$ 18,637	\$ 6,737	\$ 15,627
Actual Offsetting Collections	(4,041)	(11,257)	(3,627)	(10,071)
Change in Uncollected Customer Payments From Federal Sources	0	157	(5)	(132)
Anticipated Offsetting Collections	0	0	0	0
<b>Budget Authority, Net</b>	<b>\$ 3,041</b>	<b>\$ 7,537</b>	<b>\$ 3,105</b>	<b>\$ 5,424</b>
<b>Outlays, Gross</b>	<b>\$ 8,056</b>	<b>\$ 14,631</b>	<b>\$ 6,157</b>	<b>\$ 14,312</b>
Actual Offsetting Collections	(4,041)	(11,257)	(3,627)	(10,071)
Outlays, Net	4,015	3,374	2,530	4,241
Distributed Offsetting Receipts	0	(1,059)	1	(1,027)
<b>Agency Outlays, Net</b>	<b>\$ 4,015</b>	<b>\$ 2,315</b>	<b>\$ 2,531</b>	<b>\$ 3,214</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# Rural Development

## NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2013 AND 2012 (In Millions)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### A. Basis of Presentation

Rural Development prepares financial statements to report the financial position and results of operations of the United States Department of Agriculture (USDA) Rural Development mission area. In accordance with the Office of Management and Budget (OMB) *Circular A-136, Financial Reporting Requirements*, Rural Development ensures the information within these financial statements conform to Generally Accepted Accounting Principles (GAAP) for federal entities and Statements of Federal Financial Accounting Standards (SFFAS).

United States Treasury (Treasury) began a reclassification effort in Fiscal Year (FY) 2012 to better align the Combined Statement of Budgetary Resources to the newly formatted SF133, Report on Budget Execution and Budgetary Resources. This reclassification effort continued into FY 2013.

#### 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 improves the economy and quality of life in all of rural America by providing 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. Additionally, Rural Development applies guidelines from the Federal Credit Reform Act of 1990 (Credit Reform) contained in the Omnibus Budget Reconciliation Act of 1990.

Rural Development utilizes the cash, accrual, and budgetary accounting basis while preparing the financial statements. The cash accounting basis recognizes Pre-Credit Reform and Credit Reform nonfederal transactions, except for the accrual of interest related to borrower loans. Under the cash method, Rural Development recognizes revenues when cash is received and expenses when they are paid. Federal transactions utilize the accrual accounting basis. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of federal funds.

Rural Development eliminates all significant interfund and intrafund balances and transactions 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

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Fiduciary assets are not assets of Rural Development and, as such, 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 requirements. Actual results may differ from those estimates.

### **E. Revenue and Other Financing Sources**

#### **Revolving/Credit Funds:**

Beginning in 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, Rural Development receives an appropriation 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 estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. 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 Treasury and borrower loan repayments.

#### **General Funds:**

Rural Development receives appropriations from 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, Rural Development recognizes both as a use of budgetary resources. 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. Rural Development records appropriations for general fund activities as a financing source when expended. Unexpended appropriations are recorded as Net Position.

### **F. Fund Balance with Treasury**

Treasury processes all receipts and disbursements and maintains the appropriate governmental bank accounts.

## NOTE 1: Continued

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### G. Lending Activities

Rural Development utilizes appropriations and borrowing authority to make direct loans. These loans represent actual cash disbursements to borrowers which require repayment.

Other lending activities include the guarantee of loans for Single Family Housing, Multi-Family Housing, Community, Business, and Utility programs. The term “guarantee” means “to guarantee the repayment of all or a part of the principal or interest on any debt obligation to eligible borrowers originated, held, and serviced by a private financial agency or other lender approved by the Secretary of Agriculture.”

Guaranteed lenders may sell guaranteed loans in the secondary market 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

Rural Development establishes a loan receivable 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. Rural Development reclassifies nonperforming loans as performing and accrues 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 adopts the USDA policy of writing off, for financial reporting purposes, all loans that are two years or more delinquent.

Present value and net realizable value are used to value the remaining interest and principal. **Notes 5 and 25** provide additional information on the methods used for the direct and guaranteed loans.

### I. General Property, Plant, and Equipment, Net

General Services Administration (GSA) provides the land, buildings, and equipment in the current operating environment. GSA 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.

Rural Development accounts for the costs of internal use software in accordance with SFFAS No. 10, Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of the cost of internal use software whether it is commercial off-the-shelf, contractor-developed, or internally-developed which solely meets internal or operational needs. As defined in SFFAS No. 6, Accounting for Property, Plant, and Equipment, Rural Development classifies internal use software as General Property, Plant, and Equipment. The threshold for equipment is \$25,000 and internal use software is \$100,000. See **Note 6** for further information.

## NOTE 1: Continued

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### **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 budget authority. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources. There is no certainty that appropriations will be enacted.

### **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**

Rural Development recognizes pension and other employee benefits (primarily health care benefits) expense 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. Rural Development recognizes an imputed cost 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 in excess of the funds liabilities. Rural Development returns funds to Treasury after liquidating all the liabilities of these Pre-Credit Reform funds.

### **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 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. As this transfer does not occur until the following year, these excess funds are included in the Reported Fund Balance with Treasury and are considered non-entity assets.

### **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

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### **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, Rural Development records the obligated amount as an undelivered order (**Note 20**). An expenditure or an obligation cancellation reduces an undelivered order. Rural Development treats appropriated funds, which are not obligated, 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. Rural Development returns unobligated appropriations 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 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 provides 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.

Rural Development does not stipulate that the financial statements 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. This account credits all allocation transfers of balances, and charges subsequent obligations and outlays incurred by the child entity as they execute the delegated activity on behalf of the parent entity. All financial activity related to allocation transfers appears 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. Intragovernmental Fund Balance with Treasury represents the amount of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2013. Rural Development reports this balance of federal funds related to the operation of the Escrow Program and also reports as Non-Budgetary Fund Balance with Treasury in **Note 3**.

	FY 2013	FY 2012
<b>With the Public</b>		
Cash and Other Monetary Assets	\$ 0	\$ 0
<b>Intragovernmental</b>		
Fund Balance with Treasury	\$ 41	\$ 38
Total Non-Entity Assets	\$ 41	\$ 38
Total Entity Assets	\$ 108,432	\$ 101,263
<b>Total Assets</b>	<b>\$ 108,473</b>	<b>\$ 101,301</b>

## 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.

The line titled Unavailable consists of 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 2013) and are only available for prior year upward obligations. After the fifth year of expiration, Rural Development returns all funds to Treasury except those entities having extended authority to disburse. For FY's 2013 and 2012, there were approximately \$77 million and \$79 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 2013	FY 2012
<b>Fund Balances:</b>		
Revolving Funds	\$ 13,218	\$ 10,494
General Funds	5,728	7,119
Other Fund Types	(1)	(3)
<b>Total</b>	<b>\$ 18,945</b>	<b>\$ 17,610</b>
<b>Status of Fund Balance with Treasury (FBWT):</b>		
Unobligated Balance:		
Available	\$ 6,681	\$ 3,030
Unavailable	6,566	7,177
Obligated Balance Not Yet Disbursed	28,503	31,097
Borrowing Authority Not Yet Converted to Fund Balance	(22,760)	(23,627)
Authority Granted Prior to Credit Reform		
for Rental Assistance Grants	(85)	(102)
Non-Budgetary Fund Balance with Treasury	40	35
<b>Total</b>	<b>\$ 18,945</b>	<b>\$ 17,610</b>



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

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
<b>FY 2013</b>			
<b>Intragovernmental</b>			
A/R Revenue, Refunds, Reimbursements	0	0	0
<b>Total Intragovernmental Accounts Receivable</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>With the Public</b>			
Audit Receivable	11	11	0
<b>Total Accounts Receivable</b>	<b>\$ 11</b>	<b>\$ 11</b>	<b>\$ 0</b>
<b>FY 2012</b>			
<b>Intragovernmental</b>			
A/R Revenue, Refunds, Reimbursements	0	0	0
<b>Total Intragovernmental Accounts Receivable</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>With the Public</b>			
Audit Receivable	11	11	0
<b>Total Accounts Receivable</b>	<b>\$ 11</b>	<b>\$ 11</b>	<b>\$ 0</b>

## 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 loans and loan guarantees made after 1991 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.

For direct loans made Pre-1992 and defaulted loans, Rural Development uses the Net Realizable Value methodology to value the remaining interest and principal portfolio. This was a change from the previous year's method. See **Note 25** for further information. The change resulted in a decrease in the allowance for loans made Pre-1992 of approximately \$3.8 billion (See **Table 1**).

## NOTE 5: Continued

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### **Rural Development List of Programs**

#### **RURAL BUSINESS-COOPERATIVE PROGRAMS**

- Biorefinery Assistance Guaranteed Loans
- Business and Industry Direct and Guaranteed Loans
- Intermediary Relending Program Direct Loans
- Rural Energy for America Guaranteed Loans (formerly Renewable Energy)
- Rural Economic Development Direct Loans
- Rural Microenterprise Investment 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**

- Distance Learning, Telemedicine, and Broadband 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
<b>Housing</b> • Single Family  • Multi-Family	Maximum 30-38 years per program  1997 and prior – 50 years Subsequent – 50 years amortization with 30 year repayment and balloon	Current  Current	Payment assistance - payment moratoriums - loan reamortization  Payment assistance - rental assistance to tenants
Community Facility	Maximum 40 years	4.5% to current	Workout agreements – loan reamortization
Farm Labor	Maximum 33 years	1%	Workout agreements
Water and Environmental	Useful life not to exceed 40 years	Current rate not to exceed 5%	Principal payment deferrals – loan reamortization – loan transfers
Electric	Maximum 35 years	Current or 5%	Payment deferrals – 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
Distance Learning, Telemedicine, and Broadband	Maximum 35 years	Current or 4%	Payment extension
Rural Microenterprise Investment	Maximum 20 years	2%	Initial payment deferment for 2 years

## NOTE 5: Continued

PROGRAM CHARACTERISTICS – GUARANTEED			
MAJOR PROGRAMS	REPAYMENT PERIOD	INTEREST RATE	UNIQUE SERVICING OPTION
<b>Housing</b> • Single Family • Multi-Family	Maximum 30 years Maximum 40 years	Lender Lender	Maximum 90% guarantee. One time guarantee fee of 3.5% for purchase and 1% for refinance. Loans may be sold to third party. .4% to .5% annual fee is also charged.
<b>Community Facilities</b>	Maximum 40 years	Lender	Maximum 90% guarantee. One time guarantee fee of 1%. Loans may be sold to third party.
<b>Electric</b>	Maximum 35 years	Lender	100% Guarantee
<b>Business and Industry</b>	Maximum 7-30 years per program	Lender	Guarantee maximum 60-90%. One time guarantee fee of 2% to 3%. .25% annual fee is also charged.
<b>Business and Industry – American Recovery and Reinvestment Act</b>	Maximum 7-30 years	Lender	Guarantee maximum 90%. One time guarantee fee of 1%. No annual fee is charged.
<b>Water and Environmental</b>	Maximum 40 years	Lender	Rates will be negotiated between the lender and the borrower. They may be fixed or variable rates. One time guarantee fee of 1%.
<b>Rural Energy for America (formerly Renewable Energy)</b>	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 is also charged.
<b>Biorefinery Assistance</b>	Maximum 20 years or useful life of the project, whichever is less	Lender	Maximum 90% guarantee. One time guarantee fee of 3% . 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. Rural Development records the market value of acquired properties associated with loans 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 2013 and 2012, rural housing program properties consist primarily of 1,547 and 1,375 rural single-family dwellings, respectively. The average holding period for single family housing properties in inventory was 15 months for both FY's 2013 and 2012. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2013 and 2012 was 14,334 and 13,634, respectively. Rural Development allows leasing certain properties 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 \$17.9 billion and \$18.6 billion of the rural housing programs unpaid loan principal as of September 30, 2013 and 2012, 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 \$892 million and \$935 million higher for FY's 2013 and 2012, respectively. At the end of FY's 2013 and 2012, the Rural Development housing portfolio contained approximately 66.3 thousand and 67.9 thousand restructured loans with an outstanding unpaid principal balance of \$2.8 billion and \$2.7 billion, respectively.

#### **MODIFICATIONS**

A modification is any government action different from actions in 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 any action resulting from new legislation. Modifications may also occur from the exercise of administrative discretion under existing law that directly or indirectly alters the estimated cost of outstanding direct loans or loan guarantees. 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 modifications related to the revitalization program, which began in FY 2006, continued through FY 2013. In this program, Rural Development provides restructured loans and grants to development owners to revitalize multi-family housing development projects in order to extend the affordable use without displacing tenants due to the increased rent.

## NOTE 5: Continued

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### SUBSIDY RATES AND REESTIMATES

The Federal Credit Reform Act of 1990, as amended, and OMB Circular A-11, govern 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 2013 and 2012, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY 2013 and FY 2012, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. A key sensitive element in the guaranteed programs is defaults. Additionally, 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

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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 2013 and FY 2012. Loans receivable and related foreclosed property, net balances at the end of FY 2013 were \$89 billion compared to \$84 billion at the end of FY 2012. Defaulted guaranteed loans were \$288 million and \$265 million at the end of FY’s 2013 and 2012, respectively.

## NOTE 5: Continued

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Beginning in FY 2012, advance payments surpassed the loans receivable balance in the Liquidating Fund. This was due to an increased volume in advance payments and a normal reduction to the Liquidating Portfolio. The Omnibus Budget Act of 1987, section 313, authorized the accumulation of Cushion of Credit (CoC) in the Revolving Fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt. To accurately represent the value of Electric and Telecommunication assets, Rural Development reports the CoC amounts as a separate line item in **Table 1**, under the Direct Loans Receivables Section.



## NOTE 5: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

<b>FY 2013</b>	<b>Loans Receivable, Gross</b>	<b>Interest Receivable</b>	<b>Foreclosed Property</b>	<b>Allowance<sup>1</sup></b>	<b>Value of Assets</b>
<b>Direct Loans</b>					
<u>Obligated Pre-1992</u>					
Housing Loans	\$ 8,142	\$ 71	\$ 29	\$ (20)	\$ 8,222
Electric Loans	3,539	3	0	(1,132)	2,410
Telecommunication Loans	321	0	0	0	321
Rural Development <sup>2</sup>	749	8	0	(1)	756
Development Loan Funds	21	0	0	0	21
Other Programs	0	0	0	0	0
<b>Pre-1992 Total</b>	<b>12,772</b>	<b>82</b>	<b>29</b>	<b>(1,153)</b>	<b>11,730</b>
<u>Obligated Post-1991</u>					
Housing Loans	18,107	100	72	(2,964)	15,315
Community Facility Loans	4,725	44	0	9	4,778
Electric Loans	46,006	27	0	(1,053)	44,980
Telecommunication Loans	4,414	2	0	141	4,557
Water and Environmental Loans	11,576	98	2	(350)	11,326
Development Loan Funds	419	2	0	(122)	299
Business and Industry Funds	34	0	0	28	62
Economic Development	124	0	0	(13)	111
<b>Post-1991 Total</b>	<b>85,405</b>	<b>273</b>	<b>74</b>	<b>(4,324)</b>	<b>81,428</b>
Cushion of Credit Advance Payments	(4,001)	0	0	0	(4,001)
<b>Total Direct Loans Receivable</b>	<b>94,176</b>	<b>355</b>	<b>103</b>	<b>(5,477)</b>	<b>89,157</b>
<b>Defaulted Guaranteed Loans</b>					
<u>Pre-1992</u>					
Rural Development <sup>2</sup>	1	0	0	0	1
<u>Post-1991</u>					
Community Facilities	13	0	0	(1)	12
Business and Industry	309	4	0	(78)	235
Housing Loans	805	1	0	(766)	40
<b>Total Defaulted Guaranteed Loans</b>	<b>\$ 1,128</b>	<b>\$ 5</b>	<b>\$ 0</b>	<b>\$ (845)</b>	<b>\$ 288</b>
<b>Total Loans Receivable and Related Foreclosed Property, Net</b>					<b>\$ 89,445</b>

<sup>1</sup> The allowance for Direct Loans Obligated Pre-1992 and Defaulted Guaranteed Loans are valued at Net Realizable value, while Direct Loans Obligated Post-1991 are valued at Net Present value.

<sup>2</sup> 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 RECEIVABLE AND RELATED FORECLOSED PROPERTY

<b>FY 2012</b>	<b>Loans Receivable, Gross</b>	<b>Interest Receivable</b>	<b>Foreclosed Property</b>	<b>Allowance</b>	<b>Value of Assets</b>
<b>Direct Loans</b>					
<u>Obligated Pre-1992</u>					
Housing Loans	\$ 8,560	\$ 78	\$ 32	\$ (3,831)	\$ 4,839
Electric Loans	4,065	157	0	(1,087)	3,135
Telecommunication Loans	412	1	0	(1)	412
Rural Development <sup>1</sup>	903	8	0	(40)	871
Development Loan Funds	25	0	0	(8)	17
Other Programs	0	0	0	0	0
<b>Pre-1992 Total</b>	<b>13,965</b>	<b>244</b>	<b>32</b>	<b>(4,967)</b>	<b>9,274</b>
<u>Obligated Post-1991</u>					
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
<b>Post-1991 Total</b>	<b>81,525</b>	<b>545</b>	<b>62</b>	<b>(4,270)</b>	<b>77,862</b>
Cushion of Credit Advance Payments	(3,797)	0	0	0	(3,797)
<b>Total Direct Loans Receivable</b>	<b>91,693</b>	<b>789</b>	<b>94</b>	<b>(9,237)</b>	<b>83,339</b>
<b>Defaulted Guaranteed Loans</b>					
<u>Pre-1992</u>					
Rural Development <sup>1</sup>	1	0	0	0	1
<u>Post-1991</u>					
Community Facilities	19	0	0	(1)	18
Business and Industry	268	5	0	(36)	237
Housing Loans	424	0	0	(415)	9
<b>Total Defaulted Guaranteed Loans</b>	<b>\$ 712</b>	<b>\$ 5</b>	<b>\$ 0</b>	<b>\$ (452)</b>	<b>\$ 265</b>
<b>Total Loans Receivable and Related Foreclosed Property, Net</b>					<b>\$ 83,604</b>

<sup>1</sup> 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

The net present value of direct loans obligated Post-1991 comprises the outstanding balance of the loans adjusted by the allowance for subsidy for these loans. **Table 2** shows the reconciliation of subsidy cost allowance balances from FY 2012 to FY 2013. The subsidy cost allowance in FY 2013 was \$5.2 billion compared to \$4.7 billion in FY 2012, an increase of \$447 million.

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

<b>Beginning Balance, Changes, and Ending Balance</b>	<b>FY 2013</b>	<b>FY 2012</b>
Beginning Balance of the Subsidy Cost Allowance	\$ 4,722	\$ 4,668
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	102	124
Default costs (net of recoveries)	77	107
Fees and other collections	(12)	(18)
Other subsidy costs	(67)	(18)
Total of the above subsidy expense components	100	195
Adjustments:		
Loan modifications	4	4
Fees received	65	48
Loans written off	(536)	(478)
Subsidy allowance amortization	(180)	(93)
Other	549	412
Ending balance of the subsidy cost allowance before reestimates	4,724	4,756
Add or subtract reestimates by component:		
Interest rate reestimates	(381)	142
Technical/default reestimates	826	(176)
Total of the above reestimate components	445	(34)
<b>Ending Balance of the Subsidy Cost Allowance</b>	<b>\$ 5,169</b>	<b>\$ 4,722</b>

## 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 2013 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 2013 and 2012 by program. Total direct loan subsidy expense in FY 2013 was \$549 million compared to \$165 million in FY 2012, an increase of \$384 million.

**TABLE 3: DIRECT LOAN SUBSIDY BY PROGRAM AND COMPONENT**

	Subsidy Expense for New Direct Loans Disbursed					Modifications and Reestimates				GRAND TOTAL
	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate	Technical/Default	Total	
<b>FY 2013</b>										
Housing Loans	\$ 56	\$ 28	\$ 0	\$ 5	\$ 89	\$ 4	\$ 27	\$ 260	\$ 287	\$ 380
Community Facility Loans	(6)	11	0	(3)	2	0	(64)	77	13	15
Electric Loans	(93)	14	(12)	(51)	(142)	0	(273)	629	356	214
Telecommunications Loans	0	19	0	(7)	12	0	2	65	67	79
Water and Environmental Loans	133	5	0	(11)	127	0	(73)	(203)	(276)	(149)
Development Loan Funds	6	0	0	0	6	0	(1)	(3)	(4)	2
Business and Industry Funds	1	0	0	0	1	0	2	1	3	4
Economic Development Loans	5	0	0	0	5	0	(1)	0	(1)	4
<b>Total Subsidy Expense, Direct Loans</b>	<b>\$ 102</b>	<b>\$ 77</b>	<b>\$ (12)</b>	<b>\$ (67)</b>	<b>\$ 100</b>	<b>\$ 4</b>	<b>\$ (381)</b>	<b>\$ 826</b>	<b>\$ 445</b>	<b>\$ 549</b>
<b>FY 2012</b>										
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
<b>Total Subsidy Expense, Direct Loans</b>	<b>\$ 124</b>	<b>\$ 107</b>	<b>\$ (18)</b>	<b>\$ (18)</b>	<b>\$ 195</b>	<b>\$ 4</b>	<b>\$ 142</b>	<b>\$ (176)</b>	<b>\$ (34)</b>	<b>\$ 165</b>

## NOTE 5: Continued

### Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4**. Direct loans disbursed in FY 2013 were \$8.7 billion compared to \$9.2 billion in FY 2012, a decrease of \$446 million.

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

	FY 2013		FY 2012		FY 2013 Over/Under FY 2012
Housing Loans	\$	877	\$	1,151	\$ (274)
Community Facility Loans		780		763	17
Electric Loans		4,956		5,144	(188)
Telecommunications Loans		661		780	(119)
Water and Environmental Loans		1,373		1,264	109
Development Loan Funds		17		17	0
Business and Industry Loans		6		7	(1)
Economic Development		34		24	10
<b>Total Direct Loans Disbursed</b>	<b>\$</b>	<b>8,704</b>	<b>\$</b>	<b>9,150</b>	<b>\$ (446)</b>

## NOTE 5: Continued

Subsidy rates are used to compute each year's subsidy expense. **Table 5** has the direct loan subsidy rates for FY 2013. The subsidy rates disclosed in **Table 5** pertain only to the FY 2013 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 2013	Fees and Other Collections				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	4.02	3.38	0.00	-1.43	5.97
Section 504 Housing Repair	18.55	-0.05	0.00	-4.84	13.67
Credit Sales Section 203 (SFH)	-12.76	2.59	0.00	1.20	-8.97
Section 514 Farm Labor Housing	34.11	0.09	0.00	-0.86	33.34
Section 515 Multi-Family Housing	36.28	0.19	0.00	-1.30	35.17
Section 523 Self-Help Housing Land Development	-2.20	0.00	0.00	0.05	-2.15
Credit Sales Section 209 (MFH)	Not Funded				
Multi-Family Housing Relending	36.18	0.00	0.00	0.00	36.18
Multi-Family Housing Revitalization Seconds	61.35	0.13	0.00	-0.04	61.44
Multi-Family Housing Revitalization Zero	58.35	0.10	0.00	-0.16	58.28
Community Facilities	-3.11	2.01	0.00	-0.99	-2.08
Distance Learning and Telemedicine	Not Funded				
Broadband	0.00	11.43	0.00	-1.96	9.47
Water & Environmental	10.07	0.09	0.00	-2.09	8.07
Electric Hardship	Not Funded				
FFB Electric	-4.85	0.08	0.00	-1.52	-6.29
Telephone Hardship	Not Funded				
Telephone Treasury	0.00	0.31	0.00	-1.45	-1.14
FFB Telephone	Not Funded				
Intermediary Relending Program	32.76	0.18	0.00	-0.90	32.04
Rural Economic Development	12.43	0.01	0.00	-0.05	12.39
Rural Microenterprise Loans	Not Funded				
Electric Underwriters	Not Funded				



## NOTE 5: Continued

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### **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 PROGRAMS**

The Housing Programs had an overall net upward reestimate of \$269 million. The majority of the \$269 million upward reestimates related to lowered prepayment assumptions. Lowered prepayment assumptions are due to the housing market's continued instability. By lowering projected prepayments, the assumption is that loans remain outstanding for longer periods; hence, borrowers receive more payment assistance. Therefore, lower prepayments produce higher interest rate assistance over the life of the cohort, which contributes to a higher subsidy rate.

#### **ELECTRIC PROGRAMS**

The Electric Programs had an overall upward reestimate of \$356 million. The majority of this reestimate consists of the following programs: Federal Financing Bank (FFB) upward reestimate of \$390 million and Electric Municipal downward reestimate of \$68 million. The FFB Electric Program has seen a significant swing from a downward reestimate of \$88 million in FY 2012 to upward reestimate of \$390 million in FY 2013. The last five cohort years have the greatest changes due to: (1) differences between the Single Effective Rate (SER) and the weighted borrower rate, (2) Financing Account Interest Adjustment (difference between the SER and rate paid to FFB), (3) negative formulation rate moving to positive reestimate rate, and (4) increased cost at time of disbursement due to a higher SER. The Municipal Electric program downward reestimates were due to the current economic environment of lower interest rates and subsequent prepayments. Changes in the prepayment curve account for a major component in the subsidy rate change. In the Municipal Electric Program, projected prepayments were much lower than actual prepayments.

#### **WATER AND ENVIRONMENTAL PROGRAM**

The Water and Environmental (WEP) program had an overall downward reestimates of \$276 million. The WEP downward reestimates were due to the current economic environment of lower interest rates and subsequent prepayments. Changes in the prepayment curve account for a major component in the subsidy rate change. In WEP, projected prepayments were much lower than actual prepayments.

## 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 through 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 2013 increased compared to the FY 2012 portfolio.

**Table 6** shows the outstanding balances by loan program. At the end of FY 2013 and FY 2012, there were \$97.2 billion and \$84.5 billion in outstanding principal (face value) and \$87.9 billion and \$75.0 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
<b>FY 2013</b>						
Housing Loans	\$ 2	\$ 88,921	\$ 88,923	\$ 2	\$ 81,441	\$ 81,443
Community Facility Loans	0	1,243	1,243	0	1,097	1,097
Electric Loans	85	188	273	85	188	273
Business and Industry Loans	7	6,725	6,732	5	5,001	5,006
Water and Environmental Loans	0	79	79	0	69	69
<b>Total Guarantees Outstanding</b>	<b>\$ 94</b>	<b>\$ 97,156</b>	<b>\$ 97,250</b>	<b>\$ 92</b>	<b>\$ 87,796</b>	<b>\$ 87,888</b>
<b>FY 2012</b>						
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
<b>Total Guarantees Outstanding</b>	<b>\$ 103</b>	<b>\$ 84,373</b>	<b>\$ 84,476</b>	<b>\$ 102</b>	<b>\$ 74,870</b>	<b>\$ 74,972</b>





## 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 post-1991 guarantees. **Table 6a** shows the loan guarantee liability. **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2013, the total liabilities increased by \$459 million compared to FY 2012.

**TABLE 6a: LIABILITY FOR LOAN GUARANTEES**

	Liabilities for Loan Guarantees		
	Liability for Losses on Pre-1992 Guarantees Present Value	on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
<b>FY 2013</b>			
Liability for Loan Guarantees			
Housing Loans	\$ 0	\$ 3,706	\$ 3,706
Community Facility Loans	0	74	74
Electric Loans	0	0	0
Business and Industry Loans	0	793	793
Water and Environmental Loans	0	0	0
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 0</b>	<b>\$ 4,573</b>	<b>\$ 4,573</b>
<b>FY 2012</b>			
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
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 0</b>	<b>\$ 4,114</b>	<b>\$ 4,114</b>

## NOTE 5: Continued

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

<b>Beginning Balance, Changes, and Ending Balance</b>	<b>FY 2013</b>	<b>FY 2012</b>
Beginning Balance of the Loan Guarantee Liability	\$ 4,114	\$ 3,298
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	1	(9)
Default costs (net of recoveries)	873	69
Fees and other collections	(865)	(63)
Other subsidy costs	0	1
Total of the above subsidy expense components	9	(2)
Adjustments:		
Loan guarantee modifications	0	0
Fees received	530	443
Interest supplements paid	(8)	(8)
Claim payments to lenders	(100)	(93)
Interest accumulation on the liability balance	85	81
Other	(632)	(508)
Ending balance of the loan guarantee before reestimates	3,998	3,211
Add or subtract reestimates by component:		
Interest rate reestimates	114	179
Technical/default reestimates	461	724
Total of the above reestimate components	575	903
<b>Ending Balance of the Loan Guarantee Liability (Post 1991)</b>	<b>\$ 4,573</b>	<b>\$ 4,114</b>

## NOTE 5: Continued

### Guaranteed Loan Subsidy Expense

Total guaranteed loan subsidy expense 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 2013 and FY 2012 by loan program. Total guaranteed loan subsidy expense in FY 2013 was \$584 million compared to \$901 million in FY 2012, a decrease of \$317 million.

**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	
<b>FY 2013</b>										
Housing Loans	\$ 1	\$ 786	\$ (834)	\$ 0	\$ (47)	\$ 0	\$ 137	\$ 505	\$ 642	\$ 595
Community Facility Loans	0	7	(1)	0	6	0	(2)	(4)	(6)	0
Electric Loans	0	0	0	0	0	0	0	0	0	0
Business and Industry Loans	0	80	(30)	0	50	0	(21)	(40)	(61)	(11)
Water and Environmental Loans	0	0	0	0	0	0	0	0	0	0
<b>Total Subsidy Expense, Guaranteed Loans</b>	<b>\$ 1</b>	<b>\$ 873</b>	<b>\$ (865)</b>	<b>\$ 0</b>	<b>\$ 9</b>	<b>\$ 0</b>	<b>\$ 114</b>	<b>\$ 461</b>	<b>\$ 575</b>	<b>\$ 584</b>
<b>FY 2012</b>										
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
<b>Total Subsidy Expense, Guaranteed Loans</b>	<b>\$ (9)</b>	<b>\$ 69</b>	<b>\$ (63)</b>	<b>\$ 1</b>	<b>\$ (2)</b>	<b>\$ 0</b>	<b>\$ 179</b>	<b>\$ 724</b>	<b>\$ 903</b>	<b>\$ 901</b>

## NOTE 5: Continued

### Guaranteed Loans Disbursed

Guaranteed loan volume (face value) increased from \$20.1 billion in FY 2012 to \$23.4 billion in FY 2013. 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
<b>FY 2013</b>		
Housing Loans	\$ 22,504	\$ 20,254
Community Facility Loans	142	125
Business and Industry Loans	792	608
Water and Environmental Loans	1	0
<b>Total Guaranteed Loans Disbursed</b>	<b>\$ 23,439</b>	<b>\$ 20,987</b>
<b>FY 2012</b>		
Housing Loans	\$ 18,802	\$ 16,922
Community Facility Loans	240	212
Business and Industry Loans	1,054	820
Water and Environmental Loans	26	22
<b>Total Guaranteed Loans Disbursed</b>	<b>\$ 20,122</b>	<b>\$ 17,976</b>

### 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 2013. The subsidy rates disclosed in **Table 9** pertain only to the FY 2013 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)**

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
<b>FY 2013</b>					
Section 502 Single Family Housing	0.00	4.17	-4.42	0.00	-0.25
Section 538 Multi-Family Housing	0.00	7.07	-7.11	0.00	-0.04
Community Facilities	0.00	7.63	-0.88	0.00	6.75
Business and Industry	0.00	10.08	-4.19	0.00	5.88
Water and Environmental	0.00	1.91	-0.85	0.00	1.06
Renewable Energy	0.00	25.21	-1.19	0.00	24.01
Biorefinery (Section 9003 Loan Guarantees)	0.00	45.86	-5.87	2.01	42.00



## NOTE 5: Continued

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### **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.

#### **SINGLE FAMILY HOUSING PROGRAMS**

Two cohorts in the Guaranteed Housing programs contributed to an overall upward reestimate of \$616 million. The Section 502-Purchase program comprises loan guarantees for the purchase of single family homes endorsed during FY 1992 through FY 2010, and the Section 502-Blended program comprises loan guarantees for the purchase and refinance of single family homes endorsed during FY 2011 through FY 2013.

The Single Family Housing Section 502 – Purchase program had significant net upward reestimates of \$400 million. The main causes for the significant increase were actual loss amounts that were less than forecasted due to the effects of the housing crisis. To accurately reflect this effect on future loss settlements, the Agency increased the loss rates used to forecast defaults expected to occur in FY 2014 through FY 2016. The adjustment to the curves used to forecasting defaults has caused a significant increase in forecasted defaults compared to last year, but has led to a more accurate defaults prediction.

The Single Family Housing Section 502 – Blended had significant net upward reestimates of \$216 million. The liability for FY 2011 loan guarantees was adjusted downward by \$69 million due to FY 2013 losses lower than forecasted. These losses were a result of higher credit requirements for borrowers implemented by the Agency following the housing crisis.

The liability for loan guarantees made in FY 2012 and FY 2013 were increased by a total of \$285 million as a result of higher forecasted losses. These higher forecasted losses are due to the inclusion of losses experienced following the housing crisis in the historical data used to calculate future loss assumptions.

Implementation of higher credit requirements is expected to result in future losses lower than the Agency's historical experience; however, due to the limited experience with these new requirements, the Agency is not yet able to quantify, and therefore, implement, the impact of these new requirements into future loss forecasts.

## NOTE 5: Continued

### 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 2013	FY 2012
Direct Loan Programs		
<i><b>Total</b></i>	<b>\$ 174</b>	<b>\$ 196</b>
Guaranteed Loan Programs		
<i><b>Total</b></i>	<b>\$ 409</b>	<b>\$ 410</b>

## 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 <sup>4</sup>	Method of Depreciation <sup>5</sup>	Capitalization Threshold
<b>FY 2013</b>						
<b>Personal Property</b>						
Equipment	\$ 1	\$ 1	\$ 0	5-20	SL	\$ 25,000
Internal Use Software	153	111	42	5-8	SL	\$ 100,000
Internal Use Software in Development	4	0	4	2-15	SL	\$ 100,000
<b>Total</b>	<b>\$ 158</b>	<b>\$ 112</b>	<b>\$ 46</b>			
<b>FY 2012</b>						
<b>Personal Property</b>						
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
<b>Total</b>	<b>\$ 149</b>	<b>\$ 99</b>	<b>\$ 50</b>			

## NOTE 7: OTHER ASSETS

	FY 2013	FY 2012
<b>Intragovernmental</b>		
Advances to Others	\$ 0	\$ 0
Other Assets	0	0
<b>Total Intragovernmental</b>	<b>0</b>	<b>0</b>
<b>With the Public</b>		
Investment in Loan Asset Sale Trust <sup>6</sup>	35	35
Other	2	2
<b>Total Other Assets – Non-Governmental</b>	<b>37</b>	<b>37</b>
<b>Total Other Assets</b>	<b>\$ 37</b>	<b>\$ 37</b>

<sup>4</sup> Range of Service Life

<sup>5</sup> SL - Straight Line

<sup>6</sup> 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 2013	FY 2012
<b>Intragovernmental</b>		
Unfunded Federal Employees Compensation Act (FECA) Liability	\$ 7	\$ 7
<i>Total Intragovernmental</i>	<b>7</b>	<b>7</b>
<b>With the Public</b>		
Federal Employee and Veteran Benefits	40	38
Unfunded Annual Leave	32	33
Contingent Liability	77	30
<i>Total Liabilities Not Covered by Budgetary Resources<sup>7</sup></i>	<b>156</b>	<b>108</b>
<i>Total Liabilities Covered by Budgetary Resources</i>	<b>104,812</b>	<b>96,133</b>
<b>Total Liabilities</b>	<b>\$ 104,968</b>	<b>\$ 96,241</b>

## NOTE 9: DEBT

	Beginning Balance	Net Borrowing	Ending Balance
<b>FY 2013</b>			
<b>Intragovernmental Debt</b>			
Debt to Treasury	\$ 45,777	\$ 2,957	\$ 48,734
Debt to the Federal Financing Bank (FFB)	38,092	2,568	40,660
<i>Total Intragovernmental Debt</i>	<b>83,869</b>	<b>5,525</b>	<b>89,394</b>
<b>Agency Debt</b>			
Held by the Public	0	0	0
Notes Payable	0	0	0
<i>Total Agency Debt</i>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Debt</b>	<b>\$ 83,869</b>	<b>\$ 5,525</b>	<b>\$ 89,394</b>
<b>FY 2012</b>			
<b>Intragovernmental Debt</b>			
Debt to Treasury	\$ 44,845	\$ 932	\$ 45,777
Debt to the Federal Financing Bank (FFB)	34,226	3,866	38,092
<i>Total Intragovernmental Debt</i>	<b>79,071</b>	<b>4,798</b>	<b>83,869</b>
<b>Agency Debt</b>			
Held by the Public	0	0	0
Notes Payable	0	0	0
<i>Total Agency Debt</i>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Debt</b>	<b>\$ 79,071</b>	<b>\$ 4,798</b>	<b>\$ 83,869</b>

<sup>7</sup> Liabilities not covered by budgetary resources represent liabilities for which Congressional action is required before budgetary resources can be provided.



## NOTE 9: Continued

	FY 2013	FY 2012
<b>Classification of Debt</b>		
Intragovernmental Debt	\$ 89,394	\$ 83,869
Debt Held by the Public	0	0
<b>Total Debt</b>	<b>\$ 89,394</b>	<b>\$ 83,869</b>

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. Rural Development generally secures CBO's outstanding with FFB 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.

Rural Development repays borrowings made to finance loans directly between the borrower and FFB. These borrowings mature 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

	FY 2013	FY 2012
<b>Interest Payable, Federal</b>		
Federal Financing Bank	\$ 22	\$ 342
<b>Total</b>	<b>\$ 22</b>	<b>\$ 342</b>

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.

	FY 2013	FY 2012
<b>Interest Expense, Federal</b>		
Federal Financing Bank	\$ 1,530	\$ 1,478
Treasury	2,270	2,281
<b>Total</b>	<b>\$ 3,800</b>	<b>\$ 3,759</b>

## NOTE 10: OTHER LIABILITIES

	Non-Current	Current	Total
<b>FY 2013</b>			
<b>Intragovernmental</b>			
Other Accrued Liabilities	\$ 0	\$ 15	\$ 15
Employer Contributions & Payroll Taxes Payable	0	2	2
Unfunded FECA Liability	0	7	7
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
<b>Total Intragovernmental Debt</b>	<b>0</b>	<b>23</b>	<b>23</b>
Other Accrued Liabilities	0	57	57
Accrued Funded Payroll & Leave	0	8	8
Unfunded Annual Leave	0	32	32
Liability for Deposit Fund & Suspense Accounts	0	(3)	(3)
Contingent Liabilities	0	77	77
Other Liabilities	23	(10)	13
<b>Total Other Liabilities</b>	<b>\$ 23</b>	<b>\$ 184</b>	<b>\$ 207</b>
<b>FY 2012</b>			
<b>Intragovernmental</b>			
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
<b>Total Intragovernmental Debt</b>	<b>0</b>	<b>27</b>	<b>27</b>
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
<b>Total Other Liabilities</b>	<b>\$ 22</b>	<b>\$ 199</b>	<b>\$ 221</b>

These liabilities are or will be covered by Budgetary Resources.

## NOTE 11: COMMITMENTS AND CONTINGENCIES

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### A. Commitments

Rural Development has commitments under cancelable leases for office space. GSA leases the majority of buildings in which Rural Development operates. GSA charges rent which is intended to approximate commercial rental rates.

As of September 30, 2013 and 2012, there were approximately \$5.2 billion and \$5.7 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. Rural Development does not accrue amounts 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, 2013.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments have been deemed probable in FY 2013. Determination has been made by the Office of General Counsel that it is reasonably possible that a \$77 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
<b>FY 2013</b>					
<b>Intragovernmental Gross Costs:</b>					
Borrowing Interest Expense	\$ 776	\$ 11	\$ 891	\$ 2,122	\$ 3,800
Other	211	18	55	21	305
<i>Total Intragovernmental Gross Cost</i>	<i>987</i>	<i>29</i>	<i>946</i>	<i>2,143</i>	<i>4,105</i>
Less:					
Intragovernmental Earned Revenue (Note 13)	155	5	144	236	540
<b>Intragovernmental Net Costs</b>	<b>832</b>	<b>24</b>	<b>802</b>	<b>1,907</b>	<b>3,565</b>
<b>Gross Costs with the Public:</b>					
Grants	12	1,190	1,515	0	2,717
Loan Cost Subsidies	945	31	(78)	235	1,133
Other	(3,591)	29	7	430	(3,125)
<i>Total Gross Costs with the Public</i>	<i>(2,634)</i>	<i>1,250</i>	<i>1,444</i>	<i>665</i>	<i>725</i>
Less:					
Earned Revenues from the Public (Note 13)	703	7	776	2,074	3,560
<b>Net Costs with the Public</b>	<b>(3,337)</b>	<b>1,243</b>	<b>668</b>	<b>(1,409)</b>	<b>(2,835)</b>
<b>Net Cost of Operations</b>	<b>\$ (2,505)</b>	<b>\$ 1,267</b>	<b>\$ 1,470</b>	<b>\$ 498</b>	<b>\$ 730</b>
<b>FY 2012</b>					
<b>Intragovernmental Gross Costs:</b>					
Borrowing Interest Expense	\$ 784	\$ 10	\$ 842	\$ 2,123	\$ 3,759
Other	220	21	63	25	329
<i>Total Intragovernmental Gross Cost</i>	<i>1,004</i>	<i>31</i>	<i>905</i>	<i>2,148</i>	<i>4,088</i>
Less:					
Intragovernmental Earned Revenue (Note 13)	120	4	102	205	431
<b>Intragovernmental Net Costs</b>	<b>884</b>	<b>27</b>	<b>803</b>	<b>1,943</b>	<b>3,657</b>
<b>Gross Costs with the Public:</b>					
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)
<i>Total Gross Costs with the Public</i>	<i>896</i>	<i>1,259</i>	<i>1,481</i>	<i>(395)</i>	<i>3,241</i>
Less:					
Earned Revenues from the Public (Note 13)	727	6	780	1,919	3,432
<b>Net Costs with the Public</b>	<b>169</b>	<b>1,253</b>	<b>701</b>	<b>(2,314)</b>	<b>(191)</b>
<b>Net Cost of Operations</b>	<b>\$ 1,053</b>	<b>\$ 1,280</b>	<b>\$ 1,504</b>	<b>\$ (371)</b>	<b>\$ 3,466</b>



## 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	<ul style="list-style-type: none"> <li>• Single Family Housing (Direct &amp; Guaranteed)</li> <li>• Multi-Family Housing (Direct &amp; Guaranteed)</li> </ul>
Income Security	Housing Assistance	604	Rural Housing Programs	<ul style="list-style-type: none"> <li>• Domestic Farm Labor Grants</li> <li>• Very Low-Income Housing Repair Grants</li> <li>• Construction Defects</li> <li>• Rental Assistance Program</li> <li>• Other Housing Grants</li> </ul>
Community & Regional Development	Area & Regional Development	452	Rural Housing Programs  Rural Business Programs  Rural Utilities Programs	<ul style="list-style-type: none"> <li>• Rural Community Facility (Direct &amp; Guaranteed)</li> <li>• Rural Business &amp; Industry (Direct &amp; Guaranteed)</li> <li>• Rural Economic Development (Loans &amp; Grants)</li> <li>• Energy Assistance Payments</li> <li>• Rural Development Loan Funds</li> <li>• Rural Water and Environmental (Direct &amp; Guaranteed)</li> <li>• Distance Learning &amp; Telemedicine</li> <li>• Broadband</li> </ul>
Energy	Energy Supply & Conservation	271 272 451	Rural Business Programs Rural Utilities Programs	<ul style="list-style-type: none"> <li>• Rural Energy for America Program</li> <li>• Rural Electric &amp; Telecommunications</li> </ul>
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
<b>FY 2013</b>					
<b>Intragovernmental</b>					
Interest Revenue from Treasury	\$ 148	\$ 4	\$ 142	\$ 235	\$ 529
Other	7	1	2	1	11
<b>Total Intragovernmental Earned Revenue</b>	<b>155</b>	<b>5</b>	<b>144</b>	<b>236</b>	<b>540</b>
<b>With the Public</b>					
Interest Revenue	702	7	761	2,074	3,544
Other	1	0	15	0	16
<b>Total Earned Revenues from the Public</b>	<b>703</b>	<b>7</b>	<b>776</b>	<b>2,074</b>	<b>3,560</b>
<b>Total Earned Revenues</b>	<b>\$ 858</b>	<b>\$ 12</b>	<b>\$ 920</b>	<b>\$ 2,310</b>	<b>\$ 4,100</b>
<b>FY 2012</b>					
<b>Intragovernmental</b>					
Interest Revenue from Treasury	\$ 115	\$ 4	\$ 101	\$ 204	\$ 424
Other	5	0	1	1	7
<b>Total Intragovernmental Earned Revenue</b>	<b>120</b>	<b>4</b>	<b>102</b>	<b>205</b>	<b>431</b>
<b>With the Public</b>					
Interest Revenue	725	6	764	1,919	3,414
Other	2	0	16	0	18
<b>Total Earned Revenues from the Public</b>	<b>727</b>	<b>6</b>	<b>780</b>	<b>1,919</b>	<b>3,432</b>
<b>Total Earned Revenues</b>	<b>\$ 847</b>	<b>\$ 10</b>	<b>\$ 882</b>	<b>\$ 2,124</b>	<b>\$ 3,863</b>

## 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 the 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 are not less than the current average market yield on outstanding U.S. marketable obligations of comparable maturities. These rates have been determined to be the 25-year Treasury rates.

### 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 rates, which have 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 rates 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 loans have a statutory basis for rates 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 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 exceed the interest income received from borrowers plus any interest income earned from Treasury.

## NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

	Direct	Reimbursable	Total
<b>FY 2013</b>			
Category A-Apportionment by Fiscal Quarter	\$ 184	\$ 433	\$ 617
Category B-Apportionment by Special Activities	20,396	1	20,397
<b>Total Obligations Incurred</b>	<b>\$ 20,580</b>	<b>\$ 434</b>	<b>\$ 21,014</b>
<b>FY 2012</b>			
Category A-Apportionment by Fiscal Quarter	\$ 191	\$ 487	\$ 678
Category B-Apportionment by Special Activities	18,281	0	18,281
<b>Total Obligations Incurred</b>	<b>\$ 18,472</b>	<b>\$ 487</b>	<b>\$ 18,959</b>

## NOTE 15: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

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As of September 30, 2013 and 2012, the amount of available borrowing authority was \$22.8 billion and \$23.6 billion, respectively.

## NOTE 16: TERMS OF BORROWING AUTHORITY USED

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### **Requirements for Repayments of Borrowings**

Rural Development repays borrowings on SF1151, 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**

Rural Development utilizes reestimates, cash flows, liquidating accounts' appropriations, and residual unobligated balances to repay 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. Rural Development disburses some individual loans 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

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### **Existence, Purpose, and Availability of Permanent Indefinite Appropriations**

Permanent indefinite appropriations are mainly applicable to liquidating and 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. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for the liquidating accounts and subsidy reestimates for the program accounts.

The periods 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; and (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 expire for the purpose of incurring new obligations. However, the authority is available for adjustments to obligations and for disbursements that were incurred or made, but not recorded, during the period prior to expiration. 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

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

### **Purpose**

Rural Development obligates and expends funds only for the purpose authorized in appropriation acts or other laws.

### **Amount**

Obligations and expenditures may not exceed the amounts established by law. Rural Development classifies amounts available 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 general 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

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The 2015 Budget of the United States Government, with the Actual Column completed for FY 2013, 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 2014. The Budget will be available from the Government Printing Office.

The 2014 Budget of the United States Government, with the Actual Columns completed for FY 2012, was published in 2013 and reconciled to the SBR.

Reporting errors of \$2 million in Budgetary Resources are being reported. The errors are a result of changes being made in to the Federal Agencies' Centralized Trial-Balance System II (FACTS II) data, input to the Budget, after the financial statements were published. The Rural Microenterprise Investment Loan incorrectly reported \$1 million as current year budget authority rather than prior year budget authority. The Rural Community Advancement Program required a \$1 million adjustment to budget authority.

The reconciling items represent:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President's Budget "actual" column per OMB Circular No. A-11 but is included in the SBR.
- In FY 2012, Total Net Outlays on the SBR reports an accounting reduction for Distributed Offsetting Receipts.
- In FY 2012, a change in methodology resulted in an adjustment for Guaranteed subsidy disbursed in prior years to align with the unclosed loans.
- In FY 2012, Alternative Agricultural Research and Commercialization Corporation Revolving Fund (12x4144) was not included in the SBR, but was included in the Budget.
- Amounts due to rounding.

## NOTE 19: Continued

Reconciliation Between FY 2012 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
<b>Total Budgetary Resources (Line 1910)</b>	\$29,166	Total Budgetary Resources Available for Obligation	\$28,703	<b>\$ 461</b>	\$2
				E 435	
				R 1	
				A 25	
<b>Obligations Incurred (Line 2190)</b>	\$18,959	Total New Obligations	\$18,913	<b>\$ 46</b>	None
				E 22	
				A 25	
				R (1)	
<b>Distributed Offsetting Receipts (Line 4200)</b>	\$(1,026)	Treasury Combined Statement (Receipts by Department)	\$(1,026)	<b>\$ 0</b>	None
<b>Total Net Outlays (Line 4190)</b>	\$6,771	Outlays	\$6,773	<b>\$ (2)</b>	None
				R (2)	

### LEGEND

E = Expired Budgetary Authority

R = Rounding

A = Adjustment

## NOTE 20: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2013 and 2012, the amount of undelivered orders was \$29.1 billion and \$31.5 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 2013 Obligated	FY 2012 Obligated
Beginning Balances	\$ 31,097	\$ 34,766
Adjustments	0	0
<b>Beginning Balances, as adjusted</b>	<b>\$ 31,097</b>	<b>\$ 34,766</b>



## NOTE 22: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2013	FY 2012
<b>Sources of Collections</b>		
Natural Resources Conservation Service Loan Collections	\$ 2	\$ 3
<b>Total Revenue Collected</b>	<b>2</b>	<b>3</b>
<b>Disposition of Collections</b>		
Amount Transferred to Treasury Receipt Accounts	2	3
<b>Total Disposition of Revenue</b>	<b>2</b>	<b>3</b>
<b>Net Custodial Activity</b>	<b>\$ 0</b>	<b>\$ 0</b>

## NOTE 23: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2013	FY 2012
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 21,014	\$ 18,959
Less: Spending Authority from Offsetting Collections and Recoveries	16,219	15,857
Obligations Net Offsetting Collections and Recoveries	4,795	3,102
Less: Offsetting Receipts	1,059	1,026
Net Obligations	3,736	2,076
Other Resources		
Transfers in/out without reimbursement	0	158
Imputed Financing from Costs Absorbed by Others	111	117
Other	(4,991)	(1,081)
Net Other Resources Used to Finance Activities	(4,880)	(806)
<b>Total Resources Used to Finance Activities</b>	<b>(1,144)</b>	<b>1,270</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	2,370	3,819
Resources that Fund Expenses Recognized in Prior Periods	(2,939)	(2,435)
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	14,858	13,159
Change in Unfilled Customer Orders	(156)	138
Other	1,059	1,027
Resources that Finance the Acquisition of Assets	(16,317)	(14,973)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	4,991	1,081
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>3,866</b>	<b>1,816</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>2,722</b>	<b>3,086</b>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(2)	0
Upward/Downward Reestimates of Credit Subsidy Expense	1,890	1,764
Other	0	31
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	1,888	1,795
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	13	13
Revaluation of Assets or Liabilities	0	4
Other Components Not Requiring or Generating Resources:		
Bad Debt Expense	(3,877)	(1,258)
Other	(16)	(174)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(3,880)	(1,415)
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>(1,992)</b>	<b>380</b>
<b>Net Cost of Operations</b>	<b>\$ 730</b>	<b>\$ 3,466</b>



## 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 Agency. Rural Development does not recognize fiduciary assets 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, and payments to insurance agencies and taxing authorities.

### **Schedule of Fiduciary Activity for the Years Ended September 30, 2013 and 2012**

	FY 2013	FY 2012
<b>Fiduciary Net Assets, beginning of year</b>	\$ 107	\$ 107
Contributions	389	376
Disbursements	395	376
<b>Increase/Decrease in Fiduciary Fund Balances</b>	<b>(6)</b>	<b>0</b>
<b>Fiduciary Net Assets, end of year</b>	<b>\$ 101</b>	<b>\$ 107</b>

### **Schedule of Fiduciary Net Assets for the Years Ended September 30, 2013 and 2012**

	FY 2013	FY 2012
<b>Cash and Cash Equivalents:</b>		
Escrow Funds held at Treasury	\$ 5	\$ 6
Investments – Short Term	96	101
Investments – Long Term	0	0
<b>Total Fiduciary Net Assets</b>	<b>\$ 101</b>	<b>\$ 107</b>

## NOTE 25: CHANGE IN METHODOLOGY FOR THE VALUATION OF ALLOWANCE FOR LOSS

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For FY 2013, direct loans made Pre-1992 are reported at net realizable value. This is a change from the previous valuation method, for which the Agency received concurrence from the Office of Management and Budget. The effect of this change resulted in a decrease to the allowance of approximately \$3.8 billion (**Note 5**).

During FY 2013, Rural Development analyzed the performance of Pre-1992 direct loans receivable. The previous allowance method reduced direct loans by the difference between the nominal amount and the present value of the expected net cash flows. The net present value, at any given time, was the amount of loans receivable less the net present value of future cash flows discounted using Rural Development's borrowing rate for liquidating loans. Due to the large difference between the net present value and the nominal amount of the loans, using a net realizable value approach, based on the last five years of write-offs, more accurately presents the value of the pre-1992 loans.

The majority of the reduction in the allowance for loss can be attributed to the Multi-Family Housing program. The reduction in the allowance increased Loans Receivable and Related Foreclosed Property, Net, and reduced Other Costs with the Public in the Statement of Net Cost by \$3.8 billion. The change in valuation had corresponding increases to Resources Payable to Treasury on the accompanying Consolidated Balance Sheet and Other Financing Sources on the Consolidated Statement of Changes in Net Position. It also had corresponding effects on multiple lines on the Reconciliation of Net Cost to Budget (**Note 23**).

Rural Development recalculated the allowance for loss for the FY 2012 Pre-1992 loans receivable using the net realizable value method. The change in valuation would have resulted in a decrease to the allowance of approximately \$3.8 billion.

**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs
<b><u>Budgetary Resources:</u></b>				
Unobligated Balance Brought Forward, October 1	\$ 252	\$ 1,010	\$ 185	\$ 560
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	252	1,010	185	560
Recoveries of Prior Year Unpaid Obligations	136	292	133	286
Other Changes in Unobligated Balance	(37)	(636)	(12)	(422)
Unobligated Balance from Prior Year Budget Authority, Net	351	666	306	424
Appropriations	817	0	903	0
Borrowing Authority (Notes 15 and 16)	0	2,494	0	2,483
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	17	2,124	68	1,592
<b>Total Budgetary Resources</b>	<b>1,185</b>	<b>5,284</b>	<b>1,277</b>	<b>4,499</b>
<b><u>Status of Budgetary Resources:</u></b>				
Obligations Incurred (Note 14)	857	3,618	1,025	3,489
Unobligated Balance, End of Year:				
Apportioned	225	1,273	163	730
Exempt From Apportionment	0	0	0	0
Unapportioned	103	393	89	280
Total Unobligated Balance, End of Year	328	1,666	252	1,010
<b>Total Budgetary Resources</b>	<b>1,185</b>	<b>5,284</b>	<b>1,277</b>	<b>4,499</b>
<b><u>Change in Obligated Balance:</u></b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	2,983	6,283	3,520	6,343
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	857	3,618	1,025	3,489
Outlays	(1,231)	(3,529)	(1,429)	(3,262)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(136)	(292)	(133)	(286)
Unpaid Obligations, End of Year	2,473	6,080	2,983	6,283
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(455)	0	(448)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	81	0	(8)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(374)	0	(455)
Memorandum Entries:				
Obligated Balance, Start of Year	2,983	5,828	3,520	5,895
Obligated Balance, End of Year	2,473	5,706	2,983	5,828
Budget Authority and Outlays, Net:				
Budget Authority, Gross	834	4,618	971	4,075
Actual Offsetting Collections	(203)	(2,593)	(268)	(2,256)
Change in Uncollected Customer Payments From Federal Sources	0	81	0	(8)
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>631</b>	<b>2,106</b>	<b>703</b>	<b>1,811</b>
Outlays, Gross	1,231	3,529	1,429	3,262
Actual Offsetting Collections	(203)	(2,593)	(268)	(2,256)
Outlays, Net	1,028	936	1,161	1,006
Distributed offsetting Receipts	0	(362)	0	(301)
<b>Agency Outlays, Net</b>	<b>\$ 1,028</b>	<b>\$ 574</b>	<b>\$ 1,161</b>	<b>\$ 705</b>





**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 4,821	\$ 501	\$ 3,004	\$ 1,118
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	4,821	501	3,004	1,118
Recoveries of Prior Year Unpaid Obligations	0	382	47	902
Other Changes in Unobligated Balance	(1,016)	(808)	1	(2,020)
Unobligated Balance from Prior Year Budget Authority, Net	3,805	75	3,052	0
Appropriations	1,242	0	1,286	0
Borrowing Authority (Notes 15 and 16)	0	5,805	0	5,531
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,709	3,651	1,203	2,511
<b>Total Budgetary Resources</b>	<b>6,756</b>	<b>9,531</b>	<b>5,541</b>	<b>8,042</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	2,482	7,817	720	7,541
Unobligated Balance, End of Year:				
Apportioned	1,888	1,698	617	501
Exempt From Apportionment	0	0	0	0
Unapportioned	2,386	16	4,204	0
Total Unobligated Balance, End of Year	4,274	1,714	4,821	501
<b>Total Budgetary Resources</b>	<b>6,756</b>	<b>9,531</b>	<b>5,541</b>	<b>8,042</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	54	17,802	93	19,052
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	2,482	7,817	720	7,541
Outlays	(2,519)	(8,184)	(712)	(7,890)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(382)	(47)	(902)
Unpaid Obligations, End of Year	17	17,053	54	17,802
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(4)	0	(9)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	1	0	6
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(3)	0	(4)
Memorandum Entries:				
Obligated Balance, Start of Year	54	17,798	93	19,043
Obligated Balance, End of Year	17	17,050	54	17,798
Budget Authority and Outlays, Net:				
Budget Authority, Gross	2,951	9,456	2,489	8,042
Actual Offsetting Collections	(2,586)	(5,036)	(2,043)	(4,799)
Change in Uncollected Customer Payments From Federal Sources	0	1	0	6
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>365</b>	<b>4,421</b>	<b>446</b>	<b>3,249</b>
Outlays, Gross	2,519	8,184	712	7,890
Actual Offsetting Collections	(2,586)	(5,036)	(2,043)	(4,799)
Outlays, Net	(67)	3,148	(1,331)	3,091
Distributed offsetting Receipts	0	(527)	0	(586)
<b>Agency Outlays, Net</b>	<b>\$ (67)</b>	<b>\$ 2,621</b>	<b>\$ (1,331)</b>	<b>\$ 2,505</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 3	\$ 3	\$ 2	\$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	3	3	2	0
Recoveries of Prior Year Unpaid Obligations	0	27	1	57
Other Changes in Unobligated Balance	1	(30)	0	(57)
Unobligated Balance from Prior Year Budget Authority, Net	4	0	3	0
Appropriations	4	0	1	0
Borrowing Authority (Notes 15 and 16)	0	2	0	2
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	60	0	21
<b>Total Budgetary Resources</b>	<b>8</b>	<b>62</b>	<b>4</b>	<b>23</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	4	18	1	20
Unobligated Balance, End of Year:				
Apportioned	0	44	0	3
Exempt From Apportionment	0	0	0	0
Unapportioned	4	0	3	0
Total Unobligated Balance, End of Year	4	44	3	3
<b>Total Budgetary Resources</b>	<b>8</b>	<b>62</b>	<b>4</b>	<b>23</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1	99	3	164
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	4	18	1	20
Outlays	(4)	(20)	(2)	(28)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(27)	(1)	(57)
Unpaid Obligations, End of Year	1	70	1	99
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(2)	0	(3)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	1	0	1
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(1)	0	(2)
Memorandum Entries:				
Obligated Balance, Start of Year	1	97	3	161
Obligated Balance, End of Year	1	69	1	97
Budget Authority and Outlays, Net:				
Budget Authority, Gross	4	62	1	23
Actual Offsetting Collections	0	(75)	0	(74)
Change in Uncollected Customer Payments From Federal Sources	0	1	0	1
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>4</b>	<b>(12)</b>	<b>1</b>	<b>(50)</b>
Outlays, Gross	4	20	2	28
Actual Offsetting Collections	0	(75)	0	(74)
Outlays, Net	4	(55)	2	(46)
Distributed offsetting Receipts	0	(1)	0	(2)
<b>Agency Outlays, Net</b>	<b>\$ 4</b>	<b>\$ (56)</b>	<b>\$ 2</b>	<b>\$ (48)</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 147	\$ 2,473	\$ 106	\$ 2,089
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	147	2,473	106	2,089
Recoveries of Prior Year Unpaid Obligations	15	48	22	57
Other Changes in Unobligated Balance	(63)	(154)	(45)	(118)
Unobligated Balance from Prior Year Budget Authority, Net	99	2,367	83	2,028
Appropriations	1,611	0	1,277	0
Borrowing Authority (Notes 15 and 16)	0	1,035	0	1,102
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	66	3,040	94	1,779
<b>Total Budgetary Resources</b>	<b>1,776</b>	<b>6,442</b>	<b>1,454</b>	<b>4,909</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	1,633	2,495	1,307	2,436
Unobligated Balance, End of Year:				
Apportioned	52	979	77	552
Exempt From Apportionment	0	0	0	0
Unapportioned	91	2,968	70	1,921
Total Unobligated Balance, End of Year	143	3,947	147	2,473
<b>Total Budgetary Resources</b>	<b>1,776</b>	<b>6,442</b>	<b>1,454</b>	<b>4,909</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	188	488	118	621
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	1,633	2,495	1,307	2,436
Outlays	(1,646)	(2,386)	(1,323)	(2,512)
Actual Transfers, Unpaid Obligations	0	0	108	0
Recoveries of Prior Year Unpaid Obligations	(15)	(48)	(22)	(57)
Unpaid Obligations, End of Year	160	549	188	488
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(114)	0	(143)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal sources	0	22	0	29
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal sources, End of Year	0	(92)	0	(114)
Memorandum Entries:				
Obligated Balance, Start of Year	188	374	118	478
Obligated Balance, End of Year	160	457	188	374
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,677	4,075	1,371	2,881
Actual Offsetting Collections	(632)	(3,230)	(628)	(2,643)
Change in Uncollected Customer Payments From Federal Sources	0	22	0	29
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>1,045</b>	<b>867</b>	<b>743</b>	<b>267</b>
Outlays, Gross	1,646	2,386	1,323	2,512
Actual Offsetting Collections	(632)	(3,230)	(628)	(2,643)
Outlays, Net	1,014	(844)	695	(131)
Distributed offsetting Receipts	0	(105)	0	(80)
<b>Agency Outlays, Net</b>	<b>\$ 1,014</b>	<b>\$ (949)</b>	<b>\$ 695</b>	<b>\$ (211)</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 26	\$ 0	\$ 29	\$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	26	0	29	0
Recoveries of Prior Year Unpaid Obligations	6	0	5	0
Other Changes in Unobligated Balance	0	0	1	0
Unobligated Balance from Prior Year Budget Authority, Net	32	0	35	0
Appropriations	885	0	957	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1	0	1	0
<b>Total Budgetary Resources</b>	<b>918</b>	<b>0</b>	<b>993</b>	<b>0</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	882	0	967	0
Unobligated Balance, End of Year:				
Apportioned	32	0	23	0
Exempt From Apportionment	0	0	0	0
Unapportioned	4	0	3	0
Total Unobligated Balance, End of Year	36	0	26	0
<b>Total Budgetary Resources</b>	<b>918</b>	<b>0</b>	<b>993</b>	<b>0</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1,019	0	1,234	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	882	0	967	0
Outlays	(1,175)	0	(1,179)	0
Actual Transfers, Unpaid Obligations	0	0	2	0
Recoveries of Prior Year Unpaid Obligations	(6)	0	(5)	0
Unpaid Obligations, End of Year	720	0	1,019	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	0	0	0
Memorandum Entries:				
Obligated Balance, Start of Year	1,019	0	1,234	0
Obligated Balance, End of Year	720	0	1,019	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	886	0	958	0
Actual Offsetting Collections	(1)	0	(1)	0
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>885</b>	<b>0</b>	<b>957</b>	<b>0</b>
Outlays, Gross	1,175	0	1,179	0
Actual Offsetting Collections	(1)	0	(1)	0
Outlays, Net	1,174	0	1,178	0
Distributed offsetting Receipts	0	0	0	0
<b>Agency Outlays, Net</b>	<b>\$ 1,174</b>	<b>\$ 0</b>	<b>\$ 1,178</b>	<b>\$ 0</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
<b><u>Budgetary Resources:</u></b>				
Unobligated Balance Brought Forward, October 1	\$ 16	\$ 19	\$ 27	\$ 25
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	16	19	27	25
Recoveries of Prior Year Unpaid Obligations	1	18	4	29
Other Changes in Unobligated Balance	0	(35)	(5)	(54)
Unobligated Balance from Prior Year Budget Authority, Net	17	2	26	0
Appropriations	58	0	63	0
Borrowing Authority (Notes 15 and 16)	0	16	0	127
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	40	0	(9)
<b>Total Budgetary Resources</b>	<b>75</b>	<b>58</b>	<b>89</b>	<b>118</b>
<b><u>Status of Budgetary Resources:</u></b>				
Obligations Incurred (Note 14)	62	36	73	99
Unobligated Balance, End of Year:				
Apportioned	13	22	16	19
Exempt From Apportionment	0	0	0	0
Unapportioned	0	0	0	0
Total Unobligated Balance, End of Year	13	22	16	19
<b>Total Budgetary Resources</b>	<b>75</b>	<b>58</b>	<b>89</b>	<b>118</b>
<b><u>Change in Obligated Balance:</u></b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	87	131	199	150
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	62	36	73	99
Outlays	(67)	(77)	(71)	(89)
Actual Transfers, Unpaid Obligations	0	0	(110)	0
Recoveries of Prior Year Unpaid Obligations	(1)	(18)	(4)	(29)
Unpaid Obligations, End of Year	81	72	87	131
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(33)	0	(40)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	7	0	7
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(26)	0	(33)
Memorandum Entries:				
Obligated Balance, Start of Year	87	98	199	110
Obligated Balance, End of Year	81	46	87	98
Budget Authority and Outlays, Net:				
Budget Authority, Gross	58	56	63	118
Actual Offsetting Collections	0	(46)	0	(80)
Change in Uncollected Customer Payments From Federal Sources	0	7	0	7
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>58</b>	<b>17</b>	<b>63</b>	<b>45</b>
Outlays, Gross	67	77	71	89
Actual Offsetting Collections	0	(46)	0	(80)
Outlays, Net	67	31	71	9
Distributed offsetting Receipts	0	(4)	0	(11)
<b>Agency Outlays, Net</b>	<b>\$ 67</b>	<b>\$ 27</b>	<b>\$ 71</b>	<b>\$ (2)</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	Salaries & Expense	Salaries & Expense	Salaries & Expense
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 15	\$ 0	\$ 23	\$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	15	0	23	0
Recoveries of Prior Year Unpaid Obligations	6	0	11	0
Other Changes in Unobligated Balance	12	0	(5)	0
Unobligated Balance from Prior Year Budget Authority, Net	33	0	29	0
Appropriations	192	0	183	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	433	0	486	0
<b>Total Budgetary Resources</b>	<b>658</b>	<b>0</b>	<b>698</b>	<b>0</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	628	0	683	0
Unobligated Balance, End of Year:				
Apportioned	18	0	2	0
Exempt From Apportionment	0	0	0	0
Unapportioned	12	0	13	0
Total Unobligated Balance, End of Year	30	0	15	0
<b>Total Budgetary Resources</b>	<b>658</b>	<b>0</b>	<b>698</b>	<b>0</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	129	0	164	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	628	0	683	0
Outlays	(645)	0	(708)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(6)	0	(11)	0
Unpaid Obligations, End of Year	106	0	129	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(6)	0	0	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(1)	0	(5)	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(7)	0	(6)	0
Memorandum Entries:				
Obligated Balance, Start of Year	123	0	164	0
Obligated Balance, End of Year	99	0	123	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	625	0	669	0
Actual Offsetting Collections	(432)	0	(481)	0
Change in Uncollected Customer Payments From Federal Sources	(1)	0	(5)	0
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>192</b>	<b>0</b>	<b>183</b>	<b>0</b>
Outlays, Gross	645	0	708	0
Actual Offsetting Collections	(432)	0	(481)	0
Outlays, Net	213	0	227	0
Distributed offsetting Receipts	0	0	1	0
<b>Agency Outlays, Net</b>	<b>\$ 213</b>	<b>\$ 0</b>	<b>\$ 228</b>	<b>\$ 0</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
<b><u>Budgetary Resources:</u></b>				
Unobligated Balance Brought Forward, October 1	\$ 640	\$ 281	\$ 657	\$ 102
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	640	281	657	102
Recoveries of Prior Year Unpaid Obligations	100	47	94	374
Other Changes in Unobligated Balance	71	(48)	0	(411)
Unobligated Balance from Prior Year Budget Authority, Net	811	280	751	65
Appropriations	(137)	0	14	0
Borrowing Authority (Notes 15 and 16)	0	168	0	197
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	184	202	201	291
<b>Total Budgetary Resources</b>	<b>858</b>	<b>650</b>	<b>966</b>	<b>553</b>
<b><u>Status of Budgetary Resources:</u></b>				
Obligations Incurred (Note 14)	203	279	326	272
Unobligated Balance, End of Year:				
Apportioned	240	197	255	72
Exempt From Apportionment	0	0	0	0
Unapportioned	415	174	385	209
Total Unobligated Balance, End of Year	655	371	640	281
<b>Total Budgetary Resources</b>	<b>858</b>	<b>650</b>	<b>966</b>	<b>553</b>
<b><u>Change in Obligated Balance:</u></b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1,831	922	2,333	1,554
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	203	279	326	272
Outlays	(769)	(435)	(733)	(531)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(100)	(47)	(94)	(374)
Unpaid Obligations, End of Year	1,165	719	1,831	922
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(14)	(292)	(15)	(124)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	1	45	0	(167)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources End of Year	(13)	(247)	(14)	(292)
Memorandum Entries:				
Obligated Balance, Start of Year	1,817	630	2,318	1,430
Obligated Balance, End of Year	1,152	472	1,817	630
Budget Authority and Outlays, Net:				
Budget Authority, Gross	47	370	215	488
Actual Offsetting Collections	(187)	(277)	(206)	(219)
Change in Uncollected Customer Payments From Federal Sources	1	45	0	(167)
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>(139)</b>	<b>138</b>	<b>9</b>	<b>102</b>
Outlays, Gross	769	435	733	531
Actual Offsetting Collections	(187)	(277)	(206)	(219)
Outlays, Net	582	158	527	312
Distributed offsetting Receipts	0	(60)	0	(47)
<b>Agency Outlays, Net</b>	<b>\$ 582</b>	<b>\$ 98</b>	<b>\$ 527</b>	<b>\$ 265</b>



**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 5,920	\$ 4,287	\$ 4,033	\$ 3,894
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	5,920	4,287	4,033	3,894
Recoveries of Prior Year Unpaid Obligations	264	814	317	1,705
Other Changes in Unobligated Balance	(1,032)	(1,711)	(65)	(3,082)
Unobligated Balance from Prior Year Budget Authority, Net	5,152	3,390	4,285	2,517
Appropriations	4,672	0	4,684	0
Borrowing Authority (Notes 15 and 16)	0	9,520	0	9,442
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,410	9,117	2,053	6,185
<b>Total Budgetary Resources</b>	<b>12,234</b>	<b>22,027</b>	<b>11,022</b>	<b>18,144</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 14)	6,751	14,263	5,102	13,857
Unobligated Balance, End of Year:				
Apportioned	2,468	4,213	1,153	1,877
Exempt From Apportionment	0	0	0	0
Unapportioned	3,015	3,551	4,767	2,410
Total Unobligated Balance, End of Year	5,483	7,764	5,920	4,287
<b>Total Budgetary Resources</b>	<b>12,234</b>	<b>22,027</b>	<b>11,022</b>	<b>18,144</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	6,292	25,725	7,664	27,884
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	6,751	14,263	5,102	13,857
Outlays	(8,056)	(14,631)	(6,157)	(14,312)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(264)	(814)	(317)	(1,705)
Unpaid Obligations, End of Year	4,723	24,543	6,292	25,725
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(20)	(900)	(15)	(767)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	157	(5)	(132)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(20)	(743)	(20)	(900)
Memorandum Entries:				
Obligated Balance, Start of Year	6,272	24,825	7,649	27,117
Obligated Balance, End of Year	4,703	23,800	6,272	24,825
Budget Authority and Outlays, Net:				
Budget Authority, Gross	7,082	18,637	6,737	15,627
Actual Offsetting Collections	(4,041)	(11,257)	(3,627)	(10,071)
Change in Uncollected Customer Payments From Federal Sources	0	157	(5)	(132)
Anticipated Offsetting Collections				
<b>Budget Authority, Net</b>	<b>3,041</b>	<b>7,537</b>	<b>3,105</b>	<b>5,424</b>
Outlays, Gross	8,056	14,631	6,157	14,312
Actual Offsetting Collections	(4,041)	(11,257)	(3,627)	(10,071)
Outlays, Net	4,015	3,374	2,530	4,241
Distributed offsetting Receipts	0	(1,059)	1	(1,027)
<b>Agency Outlays, Net</b>	<b>\$ 4,015</b>	<b>2,315</b>	<b>\$ 2,531</b>	<b>\$ 3,214</b>





**OTHER INFORMATION (Unaudited)**

Amounts Presented in Millions

	2013 Budgetary	2013 Non-Budgetary	2012 Budgetary	2012 Non-Budgetary
<b>Schedule of Spending</b>				
What Money is Available to Spend?				
Total Resources	\$ 12,234	\$ 22,027	\$11,022	\$18,144
Less Amount Available but Not Agreed to be Spent	2,468	4,213	1,153	1,877
Less Amount Not Available to be Spent	3,015	3,551	4,767	2,410
Total Amounts Agreed to be Spent	\$ 6,751	\$ 14,263	\$ 5,102	\$13,857
How Was the Money Spent/Issued?				
Category 11				
Full-time, Non-Wage-Board U.S.	\$ 349	\$ 0	\$ 361	\$ 0
Time-off Awards	2	0	1	0
Temporary Full-Appointments Non-Wage-Board U.S.	1	0	1	0
Part-Time Appointments Non-Wage-Board U.S.	2	0	3	0
Other Awards	1	0	1	0
Non-Wage Board Employees	2	0	1	0
Lump Sum Payment for Annual Leave-Permanent Appointments				
Non-Wage-Board Employees	3	0	7	0
Payroll Salary Accrued	(13)	0	(3)	0
Category 12				
Federal Employee Government Life Insurance-Agency Contribution	1	0	1	0
Federal Employee Health Benefits-Agency Contribution	37	0	37	0
Civil Service Retirement System 7% Coverage Code 1-Agency Contribution	4	0	5	0
Cost of Living Allowance	1	0	1	0
Office of Workers' Compensation Payment	3	0	3	0
Hospital Insurance Tax-Agency Contribution	5	0	5	0
Transitional Retirement Contribution-Civil Service	1	0	1	0
OPM Accrual Estimates	(3)	0	0	0
Transitional Old Age Survivor	1	0	1	0
FERS Regular Contributions	34	0	34	0
Full OASDI Contributions-FERS (K)	17	0	17	0
Thrift Savings Plan (TSP) Government Basic Contribution	3	0	3	0
TSP Government Matching Contribution	10	0	10	0
Payroll Benefits Estimates	(1)	0	0	0
Separation Incentive	3	0	15	0
Category 21				
Common Carrier-Domestic	1	0	1	0
Mileage Allowance-Domestic	1	0	1	0
Per Diem-Domestic	2	0	3	0
Automobile Rental-Sedan and Station Wagon Rental General Service Administration	4	0	5	0
Category 23				
Building Rental	1	0	1	0
Building Rental-General Services Administration	1	0	1	0
Building Rental Non-General Services Administration	19	0	20	0
Postage and Related Fees	0	0	1	0
Postage Fee-United States Postal Service	0	0	1	0
Category 24				
Printing, Binding, Etc.	2	0	3	0
Category 25				
Other Services	658	1,940	729	1,679
Contractual Services Performed by Other Agencies	0	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	0	0	1	0
Contractual Services-Other	4	0	4	0
Agreements	59	0	39	0
Research Agreements	0	0	1	0
Other Agreements	19	0	29	0
National Information Technology Center-Kansas City-Information Technology Services	0	0	19	0
Miscellaneous Services	2	0	2	0
Equipment Use Estimate	0	0	(3)	0



## Category 26

Supplies-Energy Related  
 Supplies and Materials-General  
 Supplies and Materials-Office-Central Supply Stores

## Category 31

Equipment  
 Machinery and Equipment (Other) IT Software  
 Machinery and Equipment (Capitalized and Accountable)  
 IT Hardware  
 Non-Capitalized Property Less than \$5,000

## Category 33

Investments and Loans

## Category 41

Grants, Subsidies, and Contributions

## Category 43

Interest and Dividends

Total Amounts Agreed To Be Spent

## Who Did the Money Go To?

Federal  
 Non-Federal

Total Amounts Agreed To Be Spent

2	0	1	0
1	0	1	0
1	0	1	0
0	0	1	0
(15)	0	0	0
1	0	0	0
17	0	1	0
1,668	8,625	33	8,523
3,707	0	3,540	0
131	3,698	158	3,655
\$ 6,751	\$ 14,263	\$ 5,102	\$ 13,857
2,920	4,949		
3,831	9,314		
\$ 6,751	\$ 14,263		

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