United States Department of Agriculture

Rural Development's Financial Statements for Fiscal Years 2016 and 2015

Audit Report 85401-0006-11

November 2016

OFFICE OF INSPECTOR GENERAL

Rural Development's Financial Statements for Fiscal Years 2016 and 2015

Audit Report 85401-0006-11

OBJECTIVE

Our objectives were to determine whether (1) the consolidated financial statements present information fairly, in all material respects, and in accordance with generally accepted accounting 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.

REVIEWED

We conducted our audits at Rural Development's National Financial and Accounting Operations Center and Centralized Servicing Center in St. Louis, Missouri, and the Rural Development national office in Washington, D.C., and also reviewed selected documentation from Rural Development field offices.

RECOMMENDS

We recommended that Rural Development refine policies and procedures over the model implementation process to ensure controls are adequate and model inputs and outputs are reliable and complete.

OIG audited the consolidated financial statements of Rural Development for fiscal years 2016 and 2015

WHAT OIG FOUND

Rural Development received an unmodified opinion from the Office of Inspector General's audit of Rural Development's consolidated financial statements. We determined that the agency's financial statements for the 2016 and 2015 fiscal years present Rural Development's financial position as of September 30, 2016, and 2015 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 and related notes to the financial statements.

Our consideration of Rural Development's internal control over financial reporting identified one significant deficiency over strengthening the controls over a new credit reform econometric model and no material weaknesses. Our consideration of compliance with laws and regulations noted noncompliance with the Debt Collection and Improvement Act of 1996 and the Fair Credit Reporting Act.

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

DATE: November 8, 2016

AUDIT NUMBER: 85401-0006-11

TO: Lisa Mensah
Under Secretary
for Rural Development

ATTN: John L. Dunsmuir
Director
Financial Management Division

FROM: Gil H. Harden
Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2016 and 2015

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2016 and 2015. 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. Your response is included in its entirety in Exhibit B.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Final Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

Table of Contents

Independent Auditor’s Report

Lisa Mensah
Under Secretary
 for Rural Development

The Department of Agriculture’s Office of Inspector General (OIG) audited the consolidated financial statements of Rural Development for fiscal years 2016 and 2015. 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 effect on the determination of material financial statement amounts and disclosures.

Exhibit A of this report provides the status of the prior year internal control weakness and noncompliance with laws and regulations. Exhibit B 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 are comprised of the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost and 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 (hereinafter referred to as the “financial statements”). The objective of our audits was to express an opinion on the fair presentation of these financial statements.

Management’s Responsibility for the Financial Statements

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 (U.S.); and 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 U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 15-02 require that we plan and perform audits 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 these 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. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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, 2016 and 2015, 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 U.S.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "Other Information" section 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 required supplementary information. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion and provide no assurance on it.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audits 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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses, 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 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 15-02 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. Our fiscal year 2016 audit, disclosed a weakness in controls over the credit reform model implementation that we determined was a significant deficiency and is discussed in the "Findings and Recommendation," Section 1 of this report. OMB Bulletin 15-02 also requires us to compare the material weaknesses identified in the audit with the material weaknesses identified in Rural Development's *FMFIA Report on Management Control*. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audit or in Rural Development's FMFIA report. We noted certain matters with no material effect on the financial statements, involving internal control over financial reporting, that we will report to Rural Development's management in a separate letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. 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 Rural Development's 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 Audit Report 04601-0002-31, *Rural Development Single Family Housing Direct Loan Program Credit Reporting*, dated March 28, 2016, OIG identified Rural Development's noncompliance with the Debt Collection and Improvement Act of 1996 (DCIA) and the Fair Credit Reporting Act (FCRA). This noncompliance is discussed in more detail under Finding 2 of the "Findings and Recommendation," Section 2 of this report.

Management's Responsibility for Internal Control and Compliance

Rural Development's management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA, (2) providing a statement of assurance on the overall effectiveness of 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 and compliance to plan the audit, (2) testing whether Rural Development's financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material financial statement amounts and disclosures.

We did not evaluate all internal controls relevant to operating objectives as broadly established by 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 reporting and compliance. 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 a 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, regulations, contracts, and grant agreements applicable to Rural Development. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct and material effect on the financial statements that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2016. We caution that noncompliance 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 B. We did not audit Rural Development's response and, accordingly, we express no opinion on it.

Status of Prior Year's Internal Control Weakness and Noncompliance Issues

We reviewed the status of Rural Development's corrective actions with respect to the prior year's Independent Auditor's Report, dated November 5, 2015. The status is presented in Exhibit A.

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

Gil H. Harden
Assistant Inspector General for Audit
Washington, D.C.
November 7, 2016

Findings and Recommendation

Section 1: Significant Deficiency in Internal Control Over Financial Reporting

Finding 1: Controls Over New Credit Reform Model Implementation Need Strengthening

In fiscal year 2016, Rural Development transitioned from a historical Excel®-based model to an econometric model[1] for estimating the liability associated with the guaranteed single family housing (GSFH) program. Rural Development's controls over the testing of new credit reform models need improvement. Although the agency performed testing of the new model's output and results, including an actuals to estimates review, their analysis failed to detect that the 2016 GSFH reestimates did not include the projected last quarter disbursements. This occurred because Rural Development officials lacked a complete understanding of the data inputs and outputs. Also, the controls over the new model outputs, including analyzing the results and approving the reestimates, were not adequate. In response to our questions regarding the GSFH reestimates, Rural Development proposed and made an adjustment in excess of $400 million to the Liability for Loan Guarantees and the related accounts and footnotes.

Federal Financial Accounting and Auditing Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act,* states that agencies must accumulate sufficient relevant and reliable data on which to base cash flow projections. Agencies should prepare all estimates and reestimates based upon the best available data at the time the estimates are made. Agencies should prepare and report reestimates of the credit subsidies, in accordance with the Statement of Federal Financial Accounting Standards 2, 18, and 19, to reflect the most recent data available.

Recommendation 1

Refine policies and procedures over the model implementation process to ensure controls are adequate and model inputs and outputs are reliable and complete.

[1] The new industry standard model incorporates key loan level attributes, historical performance data, and economic data to develop estimates of future program performance.

Section 2: Noncompliance with Laws and Regulations

Finding 2: Lack of Compliance with the Debt Collection and Improvement Act of 1996 and Fair Credit Reporting Act

In Audit Report 04601-0002-31, *Rural Development Single Family Housing Direct Loan Program Credit Reporting*, issued in March 2016, OIG identified Rural Development's noncompliance with DCIA and FCRA. Although Rural Development timely reported borrower statuses to the credit bureaus, approximately 30,000 borrower accounts, with a total outstanding balance of almost $1 billion, were either transmitted inaccurately or improperly excluded from reporting. These actions did not comply with DCIA and FCRA. This occurred because Rural Development does not have a process to thoroughly examine the data prior to transmission to credit bureaus, or to determine whether actions taken within the loan servicing system affected credit reporting. As a result, the credit bureaus were not provided information for almost $80 million of Federal debt, and used inaccurate information to calculate borrower credit reports and scores, which can impair decision-makers' abilities to predict credit risks and potentially cause material harm to affected borrowers. Rural Development officials agreed with the finding and are in the process of taking corrective action. Therefore, we are making no further recommendation in this report.

Abbreviations

DCIA	Debt Collection and Improvement Act of 1996
FCRA	Fair Credit Reporting Act
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GSFH	Guaranteed Single Family Housing
MD&A	Management's Discussion and Analysis
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
U.S.	United States of America

Exhibit A: Status of Prior Year Internal Control Weakness and Noncompliance Findings

The status of the prior year internal control weakness and noncompliance as of the year ended September 30, 2016, is summarized below:

Fiscal Year 2015 Finding	Fiscal Year 2015 Status	Fiscal Year 2016 Status
1. Subsidy Model Design and Review Needs Improvement	Material Weakness	Open with an estimated completion date of December 31, 2016. Corrective action plans have been developed and submitted to Office of the Chief Financial Officer.
2. Lack of Compliance with the Digital Accountability and Transparency Act of 2014	Noncompliance	Closed. Rural Development reported the Single Family Housing Direct Loan Program debt within the 120 day requirement.

Exhibit B: Agency's Response

USDA
United States Department of Agriculture

Rural Development

Office of the
Under Secretary

1400 Independence
Ave SW
Washington, DC
20250
Voice 202.720.4581
Fax 202.720.2080

November 7, 2016

TO: Ms. Melissa Rumsey
Director of Financial Audit Operations
Office of Inspector General
Financial & IT Operations/Audit
8930 Ward Parkway, Room 4016
Kansas City, MO 64114

FROM: Lisa Mensah
Under Secretary

Roger Glendenning
Chief Financial Officer

SUBJECT: Response to Draft Audit Report on Rural Development's Fiscal Year 2016 Financial Statements

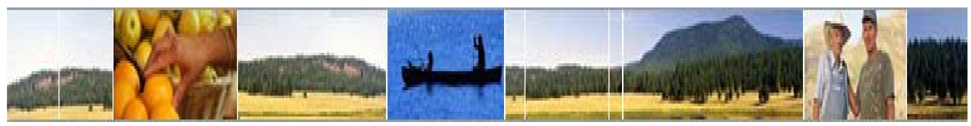
We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2016 Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree with their contents.

Rural Development will develop a plan of action to address the findings and recommendations identified during the audit. The plan will include the specific actions to be taken on the recommendations and their estimated completion date.

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

RURAL DEVELOPMENT'S
FISCAL YEARS 2016 and 2015
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT



"Committed to the future of rural communities"

Fiscal Years
2016 and 2015

Financial Statements

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

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2016 AND 2015

TABLE OF CONTENTS

Rural Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis (MD & A), in conjunction with the accompanying consolidated financial statements, footnotes, and supplemental information, reflects the activities of the Rural Development (RD) 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 (CF), 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 300,941 borrowers through direct programs and 979,688 borrowers through guaranteed programs.

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

The table below reflects a total loan portfolio balance lower in fiscal year (FY) 2016 than in FY 2015. There was a decrease in the direct portfolio from $93.1 billion to $90.6 billion and a slight increase in the guaranteed portfolio from $107.1 billion to $109.2 billion.

Total Loan Portfolio as of September 30, 2016
FY's 2014 Through 2016
(Dollars in Billions)

	FY 2014	FY 2015	FY 2016
Direct Loans			
Single Family Housing	$15.0	$14.8	$14.6
Multi-Family Housing	11.9	11.9	10.5
Community Facilities	5.1	5.6	6.3
Water & Environmental	12.5	12.6	12.6
Electric	46.4	43.1	41.8
Telecommunications	4.2	4.2	4.0
Business Programs	0.9	0.9	0.8
Total Direct	96.0	93.1	90.6
Guaranteed Loans			
Single/Multi-Family Housing	$92.3	$101.2	$103.3
Community Facilities	1.1	1.1	1.1
Water & Environmental	0.1	0.1	0.1
Electric	0.3	0.2	0.2
Business Programs	4.7	4.5	4.5
Total Guaranteed	98.5	107.1	109.2
Total Loan Portfolio	**$194.5**	**$200.2**	**$199.8**

Rural Development Programs

RURAL HOUSING SERVICE (RHS)

Rural housing and community facilities programs improve both the quality of life and local economies of rural America. They ensure rural families have access to safe, well-built, affordable homes and support social infrastructure needed to make rural communities attractive to small business owners, employees and families. These programs are a conduit to family, neighborhood and community; serve low and very low-income families; and often make it possible for many rural families to get on the ladder of opportunity.

As the only Federal agency providing loans, grants and rental assistance to low and very low-income residents for housing, and funding to support rural infrastructure and community services development, these programs are essential to rural America.

Single Family Housing (SFH) programs provide home loans and grants to low and very low-income rural residents. To date, more than 4 million direct and guaranteed loans have been provided to low and moderate income families in rural areas. These loans are made to purchase, build, improve, repair, and rehabilitate homes. Home purchase loans are available to qualifying very-low, low and moderate income home borrowers in rural America with no required down payments. Homeownership opportunities provided by the home purchase programs are tracked as a key performance measure.

Direct SFH programs provide loans to low and very low-income families to purchase, build, or rehabilitate modest homes in rural areas since 1950. Borrowers receive 100 percent financing as well as payment subsidies that can result in an effective interest rate as low as one percent depending upon household income. The subsidy, which is recaptured when the loan is paid off or refinanced, allows this program to reach a credit-worthy sector of the population whose income is too low to obtain credit elsewhere, even with a government guarantee. The families served through the direct program in FY 2016 had an average annual income of $30,852.

Guaranteed SFH programs guarantees loans up to 100 percent of the appraised value or for the acquisition cost. A guarantee fee may be added which would result to an increase in the loan amount. Mortgages are 30-year fixed rate at market interest rates. Homebuyers apply and negotiate loan interest rates, not to exceed an approved Agency cap, with an approved private sector lender. Guaranteed loans may also be made to refinance existing guaranteed housing loans or Section 502 direct housing loans. Families served through the guarantee program in FY 2016 had an average annual income of $57,961.

Section 504 Housing Repair and Rehabilitation Loan and Grant programs provide loans to very low-income homeowners who occupy their dwellings. Loans of up to $20,000 may be made to repair, modernize or to remove health and safety hazards and are amortized at 1 percent for up to 20 years. Grants of up to $7,500 are available to elderly homeowners unable to afford a repair loan and must be repaid to the government if the property is sold within three years.

Section 523 Mutual Self-Help programs offer 2-year grants that are available to rural public and private not-for-profit organizations, local governments and tribal organization. These grants provide technical assistance to low and very-low income families to build their homes through the mutual self-help method.

Section 524 Site Development Loan programs are available to public and private non-profit organizations, local governments and tribal organizations to buy and develop home building sites. Sites must be made available to low to moderate-income families using Section 502 or similar affordable mortgage financing programs serving lower-income purchasers.

Multi-Family Housing (MFH) programs provide financing for Rural Rental Housing (RRH), Farm Labor Housing, and Cooperative Housing projects available to low-income and elderly residents in rural communities.

Section 515 Rural Rental Housing programs provide funds for the construction and rehabilitation of affordable rental housing for rural families and elderly residents who have very low, low and moderate incomes. Leverage funding for Section 515 is tracked as a key performance measure and used to assess program performance.

Section 514/516 Farm Labor Housing Loan and Grant programs provide decent, safe, and sanitary housing for farm workers by providing loans to farmers for small, on-farm housing or loans and grants for off-farm multi-family developments. Leverage funding for Section 514/516 is tracked as a key performance measure and used to assess program performance.

Section 521 Rental Assistance (RA) program provides assistance to eligible tenants in Section 515 and Section 514/516 assisted housing to allow them to pay no more than 30 percent of their incomes for rent.

Section 538 Guaranteed Loan programs provide loan guarantees on loans made by public and private approved lenders to build or preserve affordable housing. Loans made for the construction, acquisition, or rehabilitation of rural MFH may be guaranteed up to 90 percent of principal and interest. Funding for this program is leveraged with other sources and is tracked as a key performance measure.

Section 542 Rural Housing Voucher program, authorized under Section 542 of the Housing Act of 1949, provides tenant protections in properties prepaying RD mortgages after September 30, 2005. These vouchers are portable and allow tenants to continue accessing affordable housing without the traditional rental assistance program.

MFH Preservation and Revitalization Demonstration programs rehabilitate housing, rental properties, or co-ops owned and/or occupied by very low and low-income rural persons.

CF programs provide both direct and guaranteed loans and grants to help rural communities develop or improve their essential community infrastructure and community facilities for public use in rural communities of 20,000 or less. Residents served by CF funded health, safety and educational facilities is a key performance measure and an indication of the success of these programs.

CF Direct and Guaranteed Loans and Grants provide financing to units of local government, nonprofit corporations, or Federally-recognized Indian tribes for the development of essential community facilities in rural areas. The program can finance a wide variety of projects including, but not limited to, health care facilities; fire, rescue, and public safety buildings, vehicles, and equipment; educational and cultural facilities; town halls, community centers, and libraries; and adult and child day care facilities to name a few. There are no set minimum or maximum loan amounts with the community facilities direct and guaranteed loan programs; however, limits may exist depending on the availability of funds and/or the project's feasibility. The loan repayment term is limited to the useful life of the facility or State statute or 40 years, whichever is less.

Rural Community Development Initiative Grants provide technical assistance to recipients to develop or increase their capacity to undertake projects in the areas of housing, community facilities, and community and economic development in rural areas.

Tribal College Grants help defray the cost to develop or improve tribal colleges and universities with land grant status under the 1994 Native American Education Act.

Economic Impact Initiative Grants assist rural municipalities and non-profit organizations in areas with severe economic depression. These grants finance the most essential community facilities to improve the quality of life for their residents. Eligible purposes include: health care; fire, rescue, and public safety facilities and equipment; and educational facilities.

CF Technical Assistance and Training assist public bodies and private non-profit corporations, (such as States, counties, cities, townships and incorporated towns and villages, boroughs, authorities, districts and Indian tribes on Federal and State reservations) that will serve rural areas for the purpose of providing technical assistance and training, with respect to essential community facilities programs.

The following chart shows key performance indicators, targets and results for Housing and Community Facilities for FY 2016.

HOUSING AND COMMUNITY FACILITIES PEFORMANCE SCORECARD FOR FY 2016			
Single Family Housing	FY 2016 Target	FY 2016 Actual	Results
Homeownership Opportunities Provided Direct Loans Guaranteed Loans	 6,793 166,357	 7,089 116,728	 Unmet
Families for Which Self-Help Homes Were Built	840	867	Exceeded
Very-Low Income Families Assisted With Home Repairs Loans Grants	 4,275 4,680	 3,162 5,010	 Unmet Met
Multi-Family Housing			
Families Assisted With New/Renewed Rental Assistance Contracts	305,888	301,671	Unmet
Leveraged Funds in New Construction and Rehabilitation	$750M	$1.15B	Exceeded
Number of Housing Vouchers	4,209	5,303	Exceeded
Units Selected for Construction or Rehabilitation	10,008	13,597	Exceeded
Units Selected for New Construction or Rehabilitation in High Poverty Areas	2,228	5,280	Exceeded
Units Selected for New Construction or Rehabilitation Including Energy Conservation or Generation	2,228	3,446	Exceeded

Community Facilities			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	4.50%	11.65%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	2.70%	5.02%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	4.50%	14.97%	Exceeded

RHS did not meet its target for homeownership opportunities provided. Due to strong demand, the SFH 502 Direct Program fully utilized its appropriation funding for a second consecutive year, but due to multiple market and program factors, the Section 502 Guaranteed Loan Program had a shortfall. These factors included continuing weakness in the refinance market, lenders' adjustment to new Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Disclosure (TRID) rules, reduction in program-eligible areas caused by the recent Farm Bill adjustment to the rural definition population limit, and most importantly, limited inventory in the lower-priced end of the housing market. To address the lack of affordable inventory, the program introduced a new construction-to-permanent financing feature, also known as “single close.” This loan feature facilitates the construction of affordable new housing in rural areas through a program enhancement that simplifies the loan making process for homebuilders and lenders, as well as the low- and moderate-income households the program serves. The Agency has also made it possible for previously ineligible smaller lenders, including credit unions, community development financial institutions, and small community banks, to participate in the program. Inclusion of these entities will enable the program to expand its reach to more underserved areas and tribal trust lands.

The Self-Help Program enabled 867 very low- or low-income families to build and own their own homes through the self-help method, exceeding its year-end goal. This very important program continues to be a springboard for many homeowners in rural America.

RHS utilized all of its repair grant funding in FY 2016, meeting the program’s goal of assisting very low income families with home repair grants. However, the target was not met for loan funding. While home repair loans increased, the agency fell short of utilizing all of its funding. The shortfall reflected in part a decrease in average loan size relative to the previous year.

RHS did not meet its target on families assisted with new/renewed RA contracts because fewer units needed funding this FY.

RHS exceeded its target for leveraged funds in new construction and rehabilitation. In FY 2016, MFH hired additional staff to process complex transactions involving the transfer and rehabilitation of existing housing using RD and leveraged funding. RD also continued its process improvement effort to facilitate property transfers, creating greater activity in RD’s direct and guaranteed MFH programs and increased third-party funding in these transactions. One accomplishment under that effort was the creation of a Preliminary Assessment Tool that gives all parties to a financial transaction a simple, consistent, easy-to-use tool to prepare and underwrite transactions. This tool has been embraced by our MFH customers and has reduced transaction processing times. This reduced processing time was achieved despite the fact that transactions being processed by MFH are becoming more difficult due to the increasing number of properties involved in transactions and the number of related funding sources. A reduction in transfer processing times will be critical as RHS attempts to retain Section 515 affordable housing with maturing mortgages, in part by transferring those properties to other owners willing to revitalize the apartments and maintain them as affordable housing in our rural communities.

The target was exceeded for number of housing vouchers. To meet the growing need for housing vouchers (for tenants in properties that have prepaid their loans and left the Section 515 program), funds were transferred from the Preservation and Revitalization program. MFH will continue to promote rehabilitation or construction of affordable housing in areas of poverty through the award of priority points for applications to fund projects in high-poverty areas.

In FY 2016, the CF Program continued efforts to develop the capacity of national and field staff to effectively underwrite and service complex community and social infrastructure projects to protect the safety and soundness of the agency's portfolio, obligating an all-time high for CF Programs and exceeding targets.

RURAL UTILITIES SERVICE (RUS)

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

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

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

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.

Telecommunications programs provide financing to rural communities for new and improved telecommunications infrastructure that is comparable to urban areas. Facilities financed must be capable of supporting broadband services to all subscribers. Broadband services and the modern applications it facilitates is a basic necessity and integral part of everyday life. It is indispensable to households and businesses. Telecommunication programs provide opportunities for equal participation in a global economy that enables competition, innovation and accessibility. It can bring new business models and business efficiencies; drive job creation and retention; and connect manufacturers and store-fronts to new customers and partners worldwide. These programs increase educational resources and improve the availability of healthcare to isolated rural communities so they can receive modern medical treatment and information, which in turn allows communities to improve public safety and provide government services. Broadband lays the foundation for future discovery and advancement across industry sectors.

Many Rural communities struggle to have the same affordable, reliable broadband access that their urban and suburban counterparts enjoy. In rural areas broadband access is often more capital intensive, costly and operationally demanding. Sparsely populated areas and challenging terrain can make the fixed costs of providing broadband access high and profits low. Private capital for the deployment of broadband services in rural areas is often limited or nonexistent, making incentives offered by RUS vitally important.

Distance Learning and Telemedicine (DLT) program is also administered by the Telecommunications programs. The DLT program assists rural schools and learning centers gain access to improved educational resources, and assists rural hospitals and health care centers gain access to improved medical resources. 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 Internet-based educational services in schools and libraries and promote confidence in, and understanding of the Internet and its benefits to students and young entrepreneurs.

The Farm Bill Broadband Program is also administered by the Telecommunications programs. It 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 and 2014 Farm Bill. Designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less, these funds are provided through a variety of direct and guaranteed loans. Broadband networks in small rural towns facilitate economic growth and provide backbone for delivery of increased educational opportunities over state-of-the-art telecommunications networks. Access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources.

Water and Environmental (WEP) programs provide loans and grants 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 2016.

UTILITIES PERFORMANCE SCORECARD FOR FY 2016			
Electric Loans – Direct Federal Financing Bank (FFB)	FY 2016 Target	FY 2016 Actual	Results
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	5.1	5.471	Met
Telecommunications Loans			
Number of borrowers/subscribers receiving new or improved telecommunication services	100,000	77,358	Unmet
Distance Learning and Telemedicine			
Number of rural counties receiving distance learning services and telemedicine facilities	380	519	Exceeded
Farm Bill Broadband			
Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	20,000	2,075	Unmet
Water and Environmental			
Population receiving new or improved services from agency-funded water and wastewater facilities or projects (millions)	2.2	2.241	Met

The Electric Programs met its target by providing new or improved electric facilities to over 5.471 million consumers in rural America. These results fall within the 20 percent deviation range from the target of 5.1 million consumers.

RUS did not fully meet its target for Telecommunications loans for several reasons that impacted subscriber count. First, the Federal Communications Commission released a Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, reforming the universal service program for rate-of-return carriers. The Order made a number of changes to the mechanisms that provide substantial revenue to rate-of-return carriers. The Program had to develop new policy based on the potential impact of the Order on applicants and borrowers. All existing loan applications had to be held until applicants provided information that took into consideration the impact of the Order on the feasibility of the loan request. This added about 2 months to the loan processing time, thereby having to carry over some loans to complete in FY 17. In addition, out of the infrastructure loan applications reviewed and processed, several were determined not to meet requirements and were returned, resulting in less subscribers included in the subscriber count. And finally, program demand surged late in the FY, and processing of these loans will be carried over and completed in FY 17.

RUS surpassed its target for the DLT Grant Program. The target was based on historical trends, and not only more applications were awarded in FY 2016, but also more funding became available from rescissions of grants from previous years.

RUS did not meet its performance goal for the Farm Bill Broadband program since a large percentage of applications were not eligible as submitted or not feasible, including meeting the program's regulatory requirements. The subscriber target was not met due to the rejection of these applications. The 2014 Farm Bill required RUS to implement changes to the Farm Bill Broadband Loan Program. The changes have been implemented and the applications received are based on the new regulation. The procedures and process are being reviewed to find enhancements to implement in the next funding cycle.

RUS met its target performance goal for WEP. The results were within the allowable variance of +/- 5 percent. WEP expanded its outreach efforts, working closely with RD state offices, to process additional loan and grants.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

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) helps to alleviate poverty, increase economic development and employment opportunities in rural communities. Under the IRP program, 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, via an intermediary lender.

Rural Economic Development Loans & Grants (REDLG) 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.

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.

Section 9003 Bio-refinery, Renewable Chemical, and Bio-based Product Manufacturing Assistance programs provide 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.

Rural Business Investment Program (RBIP) promotes economic development in mostly rural areas by helping to meet the equity capital investment needs of smaller enterprises located in such areas. The program is similar to Small Business Administration's (SBA) venture capital programs – the Small Business Investment Company (SBIC) and New Markets Venture Capital (NMVC) programs. USDA licenses newly formed for-profit venture capital companies as Rural Business Investment Companies (RBIC) to make equity and equity-like investments mostly in smaller enterprises located primarily in rural areas.

Rural Business Development Grant (RBDG) program is a competitive grant designed to support targeted technical assistance, training and other activities leading to the development or expansion of small and emerging private businesses in rural areas that have fewer than 50 employees and less than $1 million in gross revenues. Programmatic activities are separated into enterprise or opportunity type grant activities.

Healthy Food Financing Initiative (HFFI) is another new Farm Bill program. As required by the 2014 Farm Bill, HFFI offers an opportunity for the Agency to fund retailers and projects that increase access to healthy food. This also offers an opportunity for the Agency to strengthen its partnership with the U.S. Treasury, Health and Human Services, Agriculture Marketing Service, and Food and Nutrition Service to coordinate financial assistance related to healthy food financing. This also offers an opportunity for the Agency to develop policies and procedures that ensure responsive and flexible access to HFFI's grants and loans.

The Value Added Producer Grant (VAPG) program provides grants to agricultural producers for planning activities and working capital expenses to help them receive a greater share of the consumer's dollar for value-added agricultural products. These grants play a critical role in supporting the agricultural economy. Helping farmers develop new uses for their products – or expansion in existing markets – strengthens the agricultural economy as well as the non-farm economy.

Rural Cooperative Development Grant (RCDG) programs provide grants 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 Service (DHCS) programs 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.

Socially Disadvantaged Groups Grant (SDGG) Program assists socially disadvantaged groups in rural areas by funding cooperative development centers, individual cooperatives, or groups of cooperatives whose primary focus is to provide assistance to such groups. The governing board must be comprised of a majority of individuals who are members of socially disadvantaged groups. Grants must be used to provide technical assistance such as developing business plans, conducting feasibility studies, developing marketing plans, product and/or service improvement, and training.

The following chart shows key performance indicators, targets and results for Business and Cooperative for FY 2016.

BUSINESS AND COOPERATIVE PERFORMANCE SCORECARD FOR FY 2016			
Rural Business-Cooperative Programs (Grants, Direct & Guaranteed Loans)	FY 2016 Target	FY 2016 Actual	Results
Number of jobs created or saved through USDA financing of businesses	40,877	51,286	Exceeded
B & I Guaranteed Loans			
Small businesses and cooperatives assisted	267	288	Exceeded
Delinquency rate (excluding bankruptcy cases)	7%	3.60%	Exceeded

RBS exceeded jobs created/saved and businesses assisted projection totals due to the B&I program obligating well over $1 billion, which included all appropriated amounts and a significant amount of recoveries. The RBDG and IRP programs obligated all appropriated amounts. These programs generate a significant number of jobs in our rural communities. Guidance is continuously sent to field offices to assist them in more accurately capturing performance data.

RBS exceeded the target for delinquency rate because the B&I Program has made a concentrated effort over the past 3 years to resolve delinquent accounts by involving all agency employees and working closely with lenders. Through their diligence over the past years, the B&I Program's delinquency rate has been significantly reduced.

Future Opportunities and Challenges

We are the primary Federal agency responsible for creating opportunities and improving the quality of life in rural areas. Today, there are 46 million people living in rural America who provide the food, fiber, fuel and durable goods the rest of the nation, and the world, depend upon. Consequently, the economic well-being of all Americans is indelibly tied to rural growth. USDA Rural Development investments nurture that growth to fuel the national economy. We are proud to serve the needs of rural people and places to ensure that rural America continues to thrive and to drive the economy.

Having strong rural communities is critical to ensuring that rural America remains a viable place for families to call home. Through smart investments and regional partnerships, Rural Development continuously works to expand opportunities by fostering the creation of diverse and productive rural economies through financing for everything from home loans to infrastructure and business ventures. We partner with community leaders; developers; State, local and Tribal governments; private and nonprofit organizations; user-owned cooperatives; and a nationwide network of participating lenders to multiply local investments and target more resources to rural people and communities.

Moreover, Rural Development must manage massive amounts of data associated with its many programs and operations. Effective management of Information Technology (IT) projects is critical to ensuring secure, modern systems are in place to support program operations and to process resulting program data. Rural Development is implementing the Comprehensive Loan Program (CLP), a major initiative to modernize and upgrade the mission area's program delivery information technology systems. CLP will improve the systems used to originate, service, and monitor loans and grants. The upgraded systems will have user-friendly interfaces, streamline processes, and improve data integrity. They will also provide Rural Development with the flexibility to make future modifications such as adding new loan and grant programs when needed.

The Rural Development mission area faces unique challenges and opportunities ahead. We will continue to be proactive in identifying and pursuing areas of greatest need in rural America, rather than waiting for those places to find us. We will accomplish this through the StrikeForce for Rural Growth and Opportunity, Promise Zones, Stronger Economies Together, CF Relending Program (CFRP) and other such initiatives implemented since 2009. We will continue to carry out the mandates of the 2014 Farm Bill to boost economic development and job creation efforts, while also streamlining delivery of our programs to safeguard taxpayer dollars. Finally, we will continue to seek innovative ways to use our investment authorities, and to leverage partnerships with community leaders and resources at the local level, to help make rural communities more resilient. Here are some highlights from the program areas about how we are addressing these challenges and opportunities to continue our mission on behalf of rural America.

Business and Cooperative Programs

The B&I program has sought ways to continue building on its past successes while it addresses reductions in its budget authority. In addition to leveraging investments with outside funding, the program continually seeks ways to reduce its cost and make program funding go farther. For example, the B&I program has an initial fee of 3 percent, and has an annual renewal fee of .5 percent, which helps to offset the cost of the program.

The IRP program helps to alleviate poverty and increase economic development and employment opportunities in rural communities. Under the IRP program, 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 via an intermediary. As a result of the 2014 Farm Bill, the IRP program follows the Consolidated Farm and Development Act (Con Act). This provided opportunities for expanded markets and made the program more accessible because of the new rural area exception definitions.

REDLG programs 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. Challenges this program faces is ensuring timely Lender Interactive Network Connection (LINC) reporting to support the development and ongoing success of rural micro entrepreneurs and Microenterprises in rural areas. The program is also acquiring support and partnership from RUS to unify compliance review.

The RMAP program provides direct loans, technical assistance grants, and technical assistance-only grants to MDOs to support the development and ongoing success of rural micro entrepreneurs and Microenterprises in rural areas. Through RBS and the SBA Memorandum of Understanding, there is an opportunity to increase partnership with SBA's microloan program, leverage outreach, and coordinate financial assistance. The program is working on ensuring timely LINC reporting to improve the Agency's servicing and risk management efforts.

The Section 9007 REAP provides loan guarantees and grants to agricultural and producers and rural small businesses to purchase and install renewable energy systems and make energy-efficient 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 program's final rule was published December 29, 2014 and streamlined the application process. The program hopes to extend the reach to underserved/unserved populations, impoverished areas, and deploy under-represented technologies.

The Section 9003 Biorefinery, Renewable Chemical, and Biobased Product Manufacturing 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. The program has a streamlined application process and extensive outreach activities. The final rule has been delayed and some issues being dealt with are program staffing, processing, underwriting, and risk management operations.

The 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. The program hopes to streamline payments and processing, while facing significantly reduced funding and solid fuel producer payment adjustments. The final publication of the rule has also been delayed.

Housing and Community Facilities Programs

CF programs present many opportunities to assist rural communities, invest in essential community facilities, and serve rural residents. For example, CF has taken a leadership role in facilitating and strengthening public private partnerships to increase access to capital for community infrastructure and leverage resources and expertise to better manage credit risk. This initiative has brought together critical financial, project development and technical expertise, resources and innovation, and has allowed CF to reach more underserved rural communities.

Increased need for large, complex community facilities infrastructure, coupled with economic hardships faced by many rural communities poses a challenge for USDA Rural Development. Applicants, often in the poorest communities in America, lack access to long-term fixed rate affordable capital and a lack of financial, project development and technical expertise and resources for community infrastructure transactions.

To mitigate these concerns, as well as protect the safety and soundness of the Agency's portfolio, the Agency will continue to strengthen its leadership role in facilitating and strengthening Public Private Partnerships with institutional investors, the capital credit markets, accounting firms, industry experts, and highly specialized community infrastructure development firms interested in long-term investment opportunities in rural community infrastructure. Such partnerships will continue to bring critical financial and project development expertise, technical resources, innovation, and project oversight to much-needed complex community infrastructure projects.

Regarding SFH, the Section 502 Direct Certified Loan Application Packaging regulation became effective May 19, 2016. These program changes are expected to expand program outreach to qualified applicants, enable the program to take full advantage of the increased FY 2017 program authority, and create new opportunities to extend program benefits to more remote borrowers. New program efficiencies enabled by these enhancements will be offset in part by the continuing reliance on the antiquated Unifi processing system, which requires very labor-intensive and time-consuming data input. The agency will continue to seek ways to address this challenge.

The material reduction in Section 502 Guaranteed program fees in FY 2017 will make loans more affordable for borrowers and spark additional lender interest in the program. The decline in the upfront and annual fees from 2.75 percent to 1.0 percent, and 50 basis points to 35 basis points, respectively, presents an important opportunity to further market the program's unique benefits for low- and moderate-income borrowers.

To improve outreach, staff is also working to expand its suite of training and outreach tools. The agency will also seek greater program participation from Housing Finance Associations and Community Development Financial Institutions.

Finally, the Streamlined Refinance regulation, which became effective in June 2016, is expected to increase opportunities for existing Section 502 borrowers to take advantage of current low interest rates and lower their mortgage payments. The regulation enables existing borrowers in rural areas nationwide, who are current on their mortgages, to refinance their loans even if the loan balance exceeds the market value of the property—a situation in which many homeowners found themselves following the 2007/2008 housing market correction. New outreach opportunities generated by all of these changes are expected to increase program demand and fully offset the challenges of the program's reduced footprint caused by congressional changes to the rural definition. These changes made areas previously recognized as rural ineligible for program benefits if their population had expanded beyond 35,000.

Utilities Programs

The RUS electric loan program is the major source of capital for rural electric systems across 47 states, making it one of the largest federal investments in the electric sector. RUS electric borrowers and their investment needs are driven by the same trends that influence the broader electric power industry.

The electric power industry is currently facing a need to expand and invest in electric infrastructure, replace aging components, maintain reliability, and to meet customer demand. Investment is needed to expand the transmission grid to support regional competitive markets, integration of renewable electric generation sources such as wind, and to meet more stringent environmental controls, including new Environmental Protection Agency (EPA) greenhouse gas emission regulations under the Clean Power Plan. In particular, rural electric generation and transmission cooperatives are more heavily dependent on coal-fired generation than the industry as a whole and anticipate increased required investments and flexible compliance options to meet new EPA and State regulations.

Unlike investor owned utilities and public power systems, electric cooperative systems have a higher proportion of residential customers and load and are not as subject to cyclical load losses due to economic conditions. As tax-exempt entities, they are restrained from making significant investments outside their core business. As a result, cooperative electric systems have maintained critical financial ratios and strong credit ratings over the past decade, even as the ratings of investor-owned utilities and merchant generators have declined. With FY 2016 appropriations, RUS began implementing the new 2014 Farm Bill Rural Energy Savings Program to offer zero interest loans to eligible borrowers for measures to cut costs and save energy for rural consumers, including direct loans to customers for qualified efficiency improvements. RUS is also lending for renewable generation and working to expand awareness of the availability of loans under our programs for new projects serving rural areas. These lending products offer a variety of options for future power needs.

Rural areas tend to lag behind urban and suburban areas in broadband deployment. Mountains, rivers, and remote areas have challenging terrain which increases construction costs for broadband deployment. The relatively low population densities and incomes can mean fewer potential subscribers making it difficult to recoup deployment costs. Access to affordable broadband is a vital service that is necessary for economic development, education, healthcare, energy and the environment, government performance, civic engagement, and public safety. To tap the potential of the Internet and cloud computing, all businesses and citizens need high-capacity Internet access. Ensuring state-of-the-art connectivity for schools, libraries, and hospitals is also crucial.

The Federal Communications Commission (FCC) has issued a number of orders broadly impacting the telecommunications industry. In 2011, the FCC issued a Transformation Order to alter the Universal Service Fund (USF) and the level of subsidies to those firms providing telecommunications service to rural America.

Despite regulatory challenges and uncertainty, rural telecom carriers must decide on the timing of making new investments in plants to ensure that their customers are receiving the proper level of broadband service. Old copper facilities need to be replaced with fiber facilities and existing 2G and 3G wireless services need to be updated to 4G and LTE service. Rural carriers will need to consider new loans or face the possibility of losing subscribers. Continued funding for agency infrastructure and broadband loan programs remains a vital source of capital to sustain existing rural areas infrastructure and upgrades for high-capacity bandwidth needed to maintain the pace of investment in health, education, public safety, and economic growth.

At the beginning of the FY, WEP analyzed prior year usage of funds and set strategic goals to improve usage in 2016. Analysis indicated that WEP needed to focus its efforts on getting more loan funds utilized. WEP experienced great results from its build-out initiatives during 2015 and has continued its outreach to states for FY 2016.

Rural initiatives from the RD Mission Area and the Office of the Secretary are changing the traditional focus of WEP outreach and funding. The USDA Strike Force and the RD 20x20x16 initiatives are requiring additional targeted outreach and prioritization of applications associated with underserved areas of high poverty. This focus means more resources and obligations will go to more sparsely populated areas. Data shows that these projects cost more to design, construct, operate and maintain since smaller engineering firms lack the capital to finance the upfront cost associated with designing RD funded projects. Past experience indicates that community interest or momentum can decline the longer a project takes to develop.

New or more stringent federal and/or state regulatory requirements are increasing the cost of treatment. Examples include the Revised Total Coliform Rule which (1) upholds the purpose of the 1989 Total Coliform Rule to protect public health by ensuring the integrity of the drinking water distribution system and monitoring for the presence of microbial contamination; (2) requires public water systems (PWSs) to meet a legal limit for E. coli, as demonstrated by required monitoring; and (3) specifies the frequency and timing of required microbial testing based on population served, public water system type and source water type: ground water or surface water.

The situation in Flint, Michigan has elevated the issue of water quality in the minds of every American household. Residents have an increased desire to ensure that they have safe water to their homes. As a result, many rural water systems are taking a deeper look at the systems they have and evaluating if upgrades are needed. WEP anticipates increased requests for funding. Our technical assistance providers are helping communities access their quality issues with our funds or through EPA.

Entity's Systems, Controls, and Legal Compliance

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. Section 2 of the FMFIA 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.

RD Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA and in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, for the period ended September 30, 2016. Based on the results of the evaluations, Rural Development provides reasonable assurance that internal controls are operating effectively, except for the material weakness on internal controls over financial reporting as noted below.

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 or significant deficiencies were identified during FY 2016. One existing material weakness remains from the FY 2015 RD Financial Statement Audit 85401-0005-11 and was also identified during the FY 2016 OMB A-123 assessment. The material weakness identified that the subsidy model design and review needed improvement. RDs models for projecting cash flows for future loan performance relied on weighted averages of historical loan performance data, which did not reasonably predict future cash flows for programs with significant volatility. Furthermore, management had not established an effective, structured process to evaluate material differences between forecasted and actual cash flows for loans, and to take appropriate action to make adjustments to forecasting assumptions with supporting documentation when needed. RD has developed formalized procedures to review, evaluate, and document management approval of the results of the formulation and re-estimate analysis including processes for evaluating model assumptions, subsidy re-estimates, and management's conclusions. RD management will approve the formalized processes and then RD estimates official Departmental closure of the finding by December 31, 2016.

The new significant deficiency pertains to the FY 2016 RD Financial Statement Audit No. 85401-0006-11. OIG found that RD needed improvements over credit reform model implementation processes and internal controls ensuring the reasonableness of credit reform model results. RD implemented a new econometric credit reform model during FY 2016 and although RD performed testing of the new model's output and results, the analysis did not detect that the 2016 Guaranteed SFH estimated disbursements used in the reestimate determination were incorrect. Additionally, National Financial and Accounting Operations Center (NFAOC) and Budget offices did not have congruent internal controls in place to prevent and/or detect errors. OIG found that RD did not have fully developed policies and procedures for the review, evaluation and testing of new econometric models prior to implementation. To ensure effective controls over the design, evaluation, testing and implementation of new models, RD will ensure the model formula projects fourth quarter obligations and is considered when capping disbursements to obligations; and develop policies and procedures over the model implementation process to ensure controls over results are reliable and complete.

Section 4 of the FMFIA 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 2016, no new material weaknesses and no new significant deficiencies were identified. An IT significant deficiency remains outstanding that was identified in FY 2009, Office of Inspector General (OIG) Audit No. 85401-17-FM, regarding the RUS Legacy system nonconformance to IT general and application controls. The revised estimated completion date for resolution is April 30, 2018.

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 has developed a financial management system strategy that will incorporate a major initiative, the CLP investment, to modernize and upgrade information technology systems in order to support the mission area's program delivery and financial management reporting. The CLP investment modernizes and streamlines the current financial systems used to deliver and manage RD's housing, business, and utilities loan and grant programs by developing a more agile IT platform and improving automation support for all RD stakeholders. In addition, CLP supports the USDA-wide Financial Management Modernization Initiative (FMMI) that modernizes existing corporate financial and administrative payment systems and agency program specific ledgers. Through FMMI, USDA will replace existing applications and systems with an advanced, web-based core financial management system that complies with Federal accounting and systems standards.

The current RD loan servicing systems, in addition to their front-end applications, contain functionality and/or information for loan applications, loan characteristics, borrower statistical information, obligation and disbursement requests, borrower unpaid balances, borrower history related to repayments, payment logic, edits and servicing transactions to conform to agency regulations, loan's performance, and credit reform cohort indicators. The major loan servicing systems currently in use by RD are as follows:

Program Loan Accounting System (PLAS) - The PLAS system supports multiple functional areas for Rural Development direct loan and grant programs - WEP, CF Programs and Business Programs (BP) – as well as the Farm Loan Programs (FLP) of the Farm Services Agency.

Guaranteed Loan System (GLS) - The GLS system is used to support guaranteed loans for RD and FLP programs. Additionally, the GLS system is used to support the applications related to some direct loans and grants for RD BP and CF Programs. The GLS system provides a front-end interface with RD guaranteed lenders and underwriting systems.

Commercial Loan Servicing System (CLSS) - The CLSS system supports the majority of the Electric and Telecommunications direct loan and grant programs and some WEP, CF and BP. Full systems migration from the RUS Legacy system is planned under the CLP Initiative.

Rural Utilities System - The system commonly referred to as the RUS Legacy system was utilized by Rural Electrification Administration (REA) for loan servicing of the Electric and Telephone Programs. The loan servicing functionality will be migrated to CLSS under the CLP initiative to provide improved automation.

Automated Multi-Family Accounting System (AMAS) - The AMAS system is used to support direct loans for the RD MFH loan and grant programs to include the RA programs.

LoanServ – The LoanServ system services direct loans for RD SFH programs, including collecting and disbursing borrower escrow payments.

Program Funds Control System (PFCS) - The fund control system used by RD and FLP to manage funds control of allotments, obligations, and disbursements. All loan servicing systems, with the exception of AMAS, interface with PFCS. AMAS currently has a self-contained fund control system.

Under the CLP and FMMI initiatives, the future financial management systems will integrate and streamline the current framework to reduce the number of systems and interfaces and modernize infrastructure. CLP critical projects are underway and include the following:

- Modernizing the CLSS system by converting various RUS program portfolios from an old legacy system and adding functionality to meet Federal financial standards. During 2016, Rural Development has progressed in its initiative to retire the RUS Legacy system, which will allow all Rural Electric and Telephone (RET) accounts to be serviced in CLSS, providing a user friendly, complete financial information system, utilizing state-of-the-art technologies integrated with seamless interfaces to other agency systems.

- Analyzing and transforming how RD financial and accounting processes can properly communicate with the USDA core FMMI financial system. Analyzing business requirements to utilize a RD platform to transition loan servicing data into a FMMI ready format, providing functionality for management control reporting, improved process flows, data warehouse extracts and Business Intelligence Reporting, and select interface staging.

Through CLP, RD will continue to enhance efficiency, update technology, automate systems, and improve business processes. This will significantly improve and consolidate data processing and reduce long term costs.

Rural Development management evaluated its financial management systems under FFMIA for the period ended September 30, 2016. Based on the results of its evaluation, Rural Development is in substantial compliance with the Federal Financial Management Systems Requirements, Applicable Federal Accounting Standards, and the Standard General Ledger at the transaction level.

Noncompliance with Laws and Regulations. RD reports one new noncompliance during FY 2016 and one existing noncompliance remediated from FY 2015.

In the FY 2016 OIG Audit No. 04601-0002-31, RD was identified as not compliant with the Debt Collection Improvement Act and the Fair Credit Reporting Act. Although RD timely reported SFH Direct Loan Program repayment information to the credit bureaus, approximately 30,000 borrower accounts, were either transmitted inaccurately or improperly excluded from reporting. OIG also found that the Agency transmitted borrower data to the Department of Housing and Urban Development (HUD) Credit Alert Verification Reporting System (CAIVRS) over a year after the required Computer Matching Agreement expired in February 2013, and did not maintain documentation to support these transmissions.

This occurred because RD does not have a process to thoroughly examine the data prior to transmission to credit bureaus, or to determine whether actions taken within the loan servicing system affected credit reporting. RD also did not monitor the CAIVRS and credit reporting processes to ensure that information was only transmitted under active agreements.

RD is developing a project plan to determine the appropriate data analysis software that will provide tools to examine the fields in the loan servicing system and credit reporting files; identify data integrity issues in the loan servicing system that affects credit reporting; and determine the number of borrower accounts that should be reported and included in the monthly credit reporting files. Also, procedures have been updated to ensure RD begins reporting all loans to the credit bureaus when loans become permanent. RD is developing monitoring procedures for file transmissions and Agency agreements.

In FY 2015, RD reported noncompliance for the SFH Direct Loan program regarding the Digital Accountability and Transparency Act of 2014 (DATA Act). The Act requires the submission of delinquent debts to Treasury for Administrative offset within 120-days. RD submitted delinquent debts within the 120-day requirement for all loan programs except the SFH program. RD's SFH debts were identified and submitted at the previous 180-day requirement. A request for automation was submitted and the system was updated in 2016 to submit all delinquent debts at the 120-day mark. Corrective actions have been completed. The request for automation has been implemented and the corrective action plan tasks have been closed. This issue has been considered closed by OIG.

Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), require that executive agencies identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (or a high-risk program) has both a 1.5 percent improper payment rate and at least $10 million in improper payments, or exceeds $100 million dollars in improper payments.

Rural Development has 34 programs of which 1 is considered to be at significant risk of improper payments and 33 are considered to be low risk. Risk assessments for low risk programs are completed on a three-year rotating cycle. Rural Development programs with larger outlays were required to perform detailed risk assessments. The following programs completed detailed risk assessments:

1. RD RBS Payment Programs
2. RD RHS Community Development Initiative Grants
3. RD RUS Electric Loan Programs – FFB Guaranteed
4. RD RUS Electric Program – Direct 5 Percent
5. RD RUS Water and Waste Disposal Systems for Rural Communities Loans
6. RD RUS Telecommunications Hardship Loans – Direct Telecom Loans

7. RD RUS Telecommunications Loans – FFB Telecom Loans
8. RD RUS Water and Waste Disposal Loans and Grants Section 306C

In FY 2016, the Department required all programs over $1 million in annual expenditures to perform payment recapture audits, or provide justification that a payment recapture audit program would not be cost effective, per OMB Circular A-123 Appendix C. The RA Program conducted payment recapture auditing through a Departmental contract, 3 programs participated in the Supplier Credit Recovery Audit, and 4 programs developed internal payment recapture plans, which were approved by the Office of the Chief Financial Officer (OCFO). These internal plans identify and recover improper payments. Activities include data mining- initiated reviews, limited scope reviews, special investigations, eligibility verification, agency wide audits, etc. As outlined in OMB Circular A-123, Appendix C, Part I, Section D pages 5-6, 29 programs submitted a cost effective waiver and have been approved by OMB.

This table shows total improper payment rate and dollar amount as reported in the Annual Financial Report (AFR).

	REPORTED IN FY 2014	REPORTED IN FY 2015	REPORTED IN FY 2016
Reduction Target (%)	2.20%	1.90%	1.40%
Outlays	$1.117 billion	$1.147 billion	$1.141 billion
Improper Payment Rate %	1.99%	1.41%	1.10%
Improper Payments (IP) ($)	$22.3 million	$16.2 million	$12.6 million

*For FY 16- the Agency is reviewing payments made in FY 15.

The future target rates for improvement are:

FUTURE TARGETS FOR IMPROVEMENT	FY 2017 AFR	FY 2018 AFR*	FY 2019 AFR*
Estimated Outlays($)	$1,198 million	$1,258 million	$1,321 million
Reduction Target Rate (%)	1.09%	1.08%	1.07%
Estimated IPs ($)	$13.1 million	$13.6 million	$14.1 million

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

The RA program met our FY 2016 target rate and reduced the actual improper payment rate down to 1.10% from the FY 2015 improper payment rate of 1.41%. This reduction was solely based on aggressive actions to obtain documents that borrower/management agents failed to submit during the initial review process. Rural Development continues to pursue reduction in Improper payments through adding appropriate performance elements regarding IPERIA and recovery of unauthorized assistance as well as facilitating monthly accountability and program administration meetings with State and area offices.

Variance Allowances

In accordance with OMB Circular A-136, Financial Reporting Requirements, RD 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.

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

Fund Balance with Treasury:

RD is reporting an overall increase in Fund Balance with Treasury as reflected in the FY 2016 Consolidated Balance Sheet. The majority of the variance is attributed to an increase in cash received for the FY 2015 reestimates within the Guaranteed SFH Program.

Liabilities: Intragovernmental: Downward Reestimates Payable to Treasury:

RD is reporting an overall increase in Downward Reestimates Payable to Treasury as reflected in the FY 2016 Consolidated Balance Sheet. The change is attributed to the FY 2016 downward technical reestimate accrual projected by the newly implemented econometric model within the Guaranteed SFH Program.

Loan Guarantee Liability:

RD is reporting a decrease in the Loan Guarantee Liability as reflected in the FY 2016 Consolidated Balance Sheet. The change is attributed to a decrease in the FY 2016 technical reestimates projected by the newly implemented econometric model within the Guaranteed SFH Program.

Total Budgetary Resources:

RD is reporting an increase in Total Budgetary Resources as reported in FY 2016 Combined Statement of Budgetary Resources. The change occurred as a result of the following:

1. A decrease in prior year cancellations in the RET program.
2. Budgetary Appropriations increased due to the Reestimated Loan Subsidy Appropriation for Rural Housing Guaranteed Subsidy.
3. An increase in Borrowing Authority primarily attributed to the RET and Rural Housing programs.
4. An increase in Spending Authority from Offsetting Collections resulted from an increase in Subsidy collected due to the FY 2015 Reestimate for the Guaranteed Rural Housing program.

New Obligations and Upward Adjustments:

New Obligations and Upward Adjustments as reported in the Statement of Budgetary Resources experienced an increase in FY 2016. The most significant increase is in the Guaranteed Rural Housing subsidy reestimate obligation.

Changes In Net Position:

RD is reporting a significant decrease in Other Financing Sources – Other. The change is attributed to a decrease in the FY 2016 technical reestimates projected by the newly implemented econometric model within the Guaranteed SFH Program.

Net Cost of Operations:

RD is reporting a significant decrease in Net Cost of Operations. This change is attributed to a significant decrease of subsidy costs within the Guaranteed SFH Program.

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
AS OF SEPTEMBER 30, 2016 AND 2015
(In Millions)

	2016	**2015**
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 26,991	$ 22,431
Accounts Receivable, Net (Note 5)	0	0
Other (Note 8)	0	0
Total Intragovernmental	26,991	22,431
Cash and Other Monetary Assets (Note 4)	44	0
Loans Receivable and Related Foreclosed Property, Net (Note 6)	86,090	87,045
General Property, Plant and Equipment, Net (Note 7)	44	35
Other (Note 8)	37	37
Total Assets	**113,206**	**109,548**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	1	2
Debt (Note 10)	92,734	91,643
Resources Payable to Treasury (Note 1M)	8,516	8,813
Downward Reestimates Payable to Treasury General Fund (Note 1N)	7,727	1,013
Other (Note 11)	24	28
Total Intragovernmental	109,002	101,499
Accounts Payable	27	21
Loan Guarantee Liability (Note 6)	1,326	5,390
Federal Employee and Veteran Benefits (Note 9)	36	36
Other (Note 11)	176	154
Total Liabilities	**110,567**	**107,100**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	3,187	3,044
Cumulative Results of Operations	(548)	(596)
Total Net Position	**2,639**	**2,448**
Total Liabilities and Net Position	**$ 113,206**	**$ 109,548**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015
(In Millions)

	2016	2015
Strategic Goal:		
Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.		
Program Costs (Note 13):		
Intragovernmental Gross Costs		
Borrowing Interest Expense	$ 3,648	$ 3,746
Other	423	410
Total Intragovernmental Gross Costs	4,071	4,156
Less: Intragovernmental Earned Revenue (Note 14)	734	589
Intragovernmental Net Costs	**3,337**	**3,567**
Gross Costs with the Public:		
Grants	2,032	2,291
Loan Cost Subsidies	(4,286)	790
Other	1,062	846
Total Gross Costs with the Public	(1,192)	3,927
Less: Earned Revenues from the Public (Note 14)	3,412	3,541
Net Costs with the Public	**(4,604)**	**386**
Net Cost of Operations	**$ (1,267)**	**$ 3,953**

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 ENDING SEPTEMBER 30, 2016 AND 2015
(In Millions)

	2016	**2015**
Cumulative Results of Operations		
Beginning Balances:	$ (596)	$ (719)
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**(596)**	**(719)**
Budgetary Financing Sources:		
Other Adjustments	(187)	(194)
Appropriations Used	6,604	5,292
Transfers-In/Out Without Reimbursement	115	102
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	0	0
Imputed Financing	196	171
Other	(7,947)	(1,295)
Total Financing Sources	**(1,219)**	**4,076**
Net Cost of Operations	1,267	(3,953)
Net Change	48	123
Total Cumulative Results of Operations	**$ (548)**	**$ (596)**
Unexpended Appropriations		
Beginning Balances:	$ 3,044	$ 4,166
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$ 3,044**	**$ 4,166**
Budgetary Financing Sources:		
Appropriations Received	6,789	4,714
Appropriations Transferred In/Out	0	3
Other Adjustments	(42)	(547)
Appropriations Used	(6,604)	(5,292)
Total Budgetary Financing Sources	**143**	**(1,122)**
Total Unexpended Appropriations	**3,187**	**3,044**
Net Position	**$ 2,639**	**$ 2,448**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015
(In Millions)

	2016		2015	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 6,145	$ 11,472	$ 6,498	$ 8,372
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	6,145	11,472	6,498	8,372
Recoveries of Prior Year Unpaid Obligations	139	986	255	2,805
Other Changes in Unobligated Balance	(152)	(5,844)	(698)	(4,491)
Unobligated Balance from Prior Year Budget Authority, Net	6,132	6,614	6,055	6,686
Appropriations	7,495	0	5,299	2
Borrowing Authority (Notes 16 and 17)	0	10,173	0	8,879
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,608	12,503	2,526	10,621
Total Budgetary Resources	**$ 16,235**	**$ 29,290**	**$ 13,880**	**$ 26,188**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	$ 9,328	$ 14,875	$ 7,735	$ 14,716
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,886	11,137	3,927	8,325
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	908	3,278	2,094	3,147
Unexpired Unobligated Balance, End of Year	6,794	14,415	6,021	11,472
Expired Unobligated Balance, End of Year	113	0	124	0
Total Unobligated Balance, End of Year	6,907	14,415	6,145	11,472
Total Budgetary Resources	**$ 16,235**	**$ 29,290**	**$ 13,880**	**$ 26,188**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 3,746	$ 20,284	$ 4,360	$ 22,485
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	9,328	14,875	7,735	14,716
Outlays	(9,007)	(13,060)	(8,094)	(14,112)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(139)	(986)	(255)	(2,805)
Unpaid Obligations, End of Year	3,928	21,113	3,746	20,284
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(11)	(561)	(12)	(641)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(16)	27	1	80
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(27)	(534)	(11)	(561)
Memorandum Entries				
Obligated Balance, Start of Year	3,735	19,723	4,348	21,844
Obligated Balance, End of Year	3,901	20,579	3,735	19,723
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$ 10,103	$ 22,676	$ 7,825	$ 19,502
Actual Offsetting Collections	(3,863)	(15,054)	(3,739)	(16,428)
Change in Uncollected Customer Payments From Federal Sources	(16)	27	1	80
Recoveries of Prior Year Paid Obligations	2	0	1	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**$ 6,226**	**$ 7,649**	**$ 4,088**	**$ 3,154**
Outlays, Gross	$ 9,007	$ 13,060	$ 8,094	$ 14,112
Actual Offsetting Collections	(3,863)	(15,054)	(3,739)	(16,428)
Outlays, Net	5,144	(1,994)	4,355	(2,316)
Distributed Offsetting Receipts	(1)	(1,516)	0	(1,343)
Agency Outlays, Net	**$ 5,143**	**$ (3,510)**	**$ 4,355**	**$ (3,659)**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Rural Development

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016 AND 2015 (In Millions)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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) C*ircular 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).

Rural Housing Escrow Funds on deposit with U.S. Bank reported as Non-Budgetary Fund Balance with Treasury in FY 2015 (**Note 3**) was reclassified in FY 2016. A new United States Standard General Ledger account was implemented at the beginning of FY 2016 which affected the presentation of the escrow balance in the Agency's balance sheet and related notes. The escrow balance is now reported as Cash in **Note 4**.

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 24**).

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of Rural Development and, as such, are not recognized on the Balance Sheet. See **Note 25**, 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.

In FY 2016, the Agency made a significant change in an accounting estimate related to the valuation of the Loan Guarantee Liability in the Guaranteed Single Family Housing Program. See **Note 26** for details.

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

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 6**), 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. **Note 6** provides 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 7** for further information.

NOTE 1: Continued

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. However, no liability can be paid absent 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 12)**.

NOTE 1: Continued

P. Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts, which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, Rural Development records the obligated amount as an undelivered order (**Note 21**). 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. Fund Balance with Treasury in the FY 2015 column represents the amount of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2015. Beginning in FY 2016, Rural Development reports this balance related to the operation of the Escrow Program as Cash in **Note 4**.

	FY 2016	FY 2015
Intragovernmental		
Fund Balance with Treasury	$ 0	$ 43
Total Intragovernmental	**0**	**43**
Cash and Other Monetary Assets	**44**	**0**
Total Non-Entity Assets	**44**	**43**
Total Entity Assets	113,162	109,505
Total Assets	**$ 113,206**	**$ 109,548**

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 2016) 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 2016 and 2015, there were approximately $68 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.

Non-Budgetary Fund Balance with Treasury in the FY 2015 column is comprised of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2015, related to the operation of the Escrow Program. In FY 2016, Rural Development reports this balance as Cash and Other Monetary Assets in **Note 4**.

	FY 2016	FY 2015
Fund Balances:		
Revolving Funds	$ 22,470	$ 17,988
General Funds	4,521	4,444
Other Fund Types	0	(1)
Total	**$ 26,991**	**$ 22,431**
Status of Fund Balance with Treasury (FBWT):		
Unobligated Balance:		
Available	$ 17,023	$ 12,252
Unavailable	4,299	5,365
Obligated Balance Not Yet Disbursed	24,480	23,458
Borrowing Authority Not Yet Converted to Fund Balance	(18,762)	(18,626)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(50)	(60)
Temporary Reduction of New Budget Authority	1	1
Non-Budgetary Fund Balance with Treasury	0	41
Total	**$ 26,991**	**$ 22,431**

NOTE 4: CASH AND OTHER MONETARY ASSETS

Cash is comprised of funds related to the operation of the Rural Housing Escrow Program on deposit with U.S. Bank as of September 30, 2016. In FY 2015, these funds were reported in **Note 3** as a Fund Balance with Treasury.

	FY 2016	FY 2015
Cash and Other Monetary Assets		
Cash	$ 44	$ 0
Foreign Currency	0	0
Other Monetary Assets	0	0
Total Cash and Other Monetary Assets	**$ 44**	**$ 0**

NOTE 5: ACCOUNTS RECEIVABLE (A/R), NET

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2016			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	21	21	0
Total Accounts Receivable	**$ 21**	**$ 21**	**$ 0**
FY 2015			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	15	15	0
Total Accounts Receivable	**$ 15**	**$ 15**	**$ 0**

NOTE 6: 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

For direct loans made pre-1992, Rural Development uses the Net Realizable Value methodology to value the remaining interest and principal portfolio. 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.

NOTE 6: Continued

Rural Development List of Programs

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

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

NOTE 6: Continued

Program Characteristics

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

PROGRAM CHARACTERISTICS – GUARANTEED			
MAJOR PROGRAMS	**REPAYMENT PERIOD**	**INTEREST RATE**	**UNIQUE SERVICING OPTION**
Housing • **Single Family** • **Multi-Family**	Maximum 30 years Maximum 40 years	Lender Lender	Maximum 90% guarantee. 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.
Community Facilities	Maximum 40 years	Lender	Maximum 90% guarantee. One time guarantee fee of 1%. Loans may be sold to third party.
Electric	Maximum 35 years	Lender	100% Guarantee
Business and Industry	Maximum 7-30 years per program	Lender	Guarantee maximum 60-90%. One time guarantee fee of 2% to 3%. .25% annual fee is also charged.
Business and Industry – American Recovery and Reinvestment Act	Maximum 7-30 years	Lender	Guarantee maximum 90%. One time guarantee fee of 1%. No annual fee is charged.
Water and Environmental	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%.
Rural Energy for America (formerly Renewable Energy)	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.
Biorefinery Assistance	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 6: Continued

OTHER INFORMATION RELATED TO DIRECT LOANS AND LOAN GUARANTEES

FORECLOSED PROPERTY/LOANS ACQUIRED

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 2016 and 2015, rural housing program properties consist primarily of 1,239 and 1,607 rural single-family dwellings, respectively. The average holding period for single family housing properties in inventory was 16 months for both FY's 2016 and 2015. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2016 and 2015 was 22,789 and 20,753, 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 $15.9 billion and $16.5 billion of the rural housing program's unpaid loan principal as of September 30, 2016 and 2015, 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 $777 million and $816 million higher for FY's 2016 and 2015, respectively. At the end of FY's 2016 and 2015, the Rural Development housing portfolio contained approximately 60,734 and 62,400 restructured loans with an outstanding unpaid principal balance of $2.9 billion in both years.

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 2016. 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 6: Continued

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. A cohort refers to the fiscal year of obligation for direct loan obligations, or loan guarantee commitments of a specific program. In FY's 2016 and 2015, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY's 2016 and 2015, 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 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 an econometric model for Guaranteed Single Family Housing and Guaranteed Business and Industry, and historical weighted average models for Single Family Housing, Direct Single Family Housing, Multi-Family Housing, Guaranteed, Electric Underwriters, Electric Modifications, and a direct loan historical model that covers the remaining portfolio with similar characteristics.

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.

NOTE 6: Continued

DIRECT LOANS

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 2016 and FY 2015. Loans receivable and related foreclosed property, net balances at the end of FY 2016 were $86 billion compared to $87 billion at the end of FY 2015. Defaulted guaranteed loans were $249 million and $293 million at the end of FY's 2016 and 2015, respectively.

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 6: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

FY 2016	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [1]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing	$ 6,994	$ 111	$ 14	$ (14)	$ 7,105
Community Facility	23	0	0	0	23
Electric	2,488	4	0	(1,456)	1,036
Telecommunication	152	0	0	0	152
Water and Environmental	397	5	0	(1)	401
Intermediary Relending	11	0	0	0	11
Pre-1992 Total	**10,065**	**120**	**14**	**(1,471)**	**8,728**
Obligated Post-1991					
Housing	18,057	113	58	(2,306)	15,922
Community Facility	6,290	45	0	(192)	6,143
Electric	44,854	25	0	(658)	44,221
Telecommunication	4,199	1	0	12	4,212
Water and Environmental	12,154	101	0	(224)	12,031
Intermediary Relending	383	2	0	(106)	279
Business and Industry	41	1	0	1	43
Economic Development	189	0	0	(13)	176
Post-1991 Total	**86,167**	**288**	**58**	**(3,486)**	**83,027**
Cushion of Credit Advance Payments	**(5,914)**	**0**	**0**	**0**	**(5,914)**
Total Direct Loans Receivable	**90,318**	**408**	**72**	**(4,957)**	**85,841**
Defaulted Guaranteed Loans					
Post-1991					
Housing	51	1	0	(17)	35
Community Facility	13	0	0	0	13
Business and Industry	249	5	0	(53)	201
Total Defaulted Guaranteed Loans	**$ 313**	**$ 6**	**$ 0**	**$ (70)**	**$ 249**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 86,090**

[1] The allowance for Direct Loans Obligated pre-1992 are valued at Net Realizable value, while Direct Loans Obligated post-1991 and Defaulted Guaranteed Loans are valued at Net Present value.

NOTE 6: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

FY 2015	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [2]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing	$ 7,414	$ 127	$ 17	$ (16)	$ 7,542
Community Facility	31	0	0	0	31
Electric	2,677	5	0	(1,339)	1,343
Telecommunication	194	0	0	0	194
Water and Environmental	479	4	0	(1)	482
Intermediary Relending	13	0	0	0	13
Pre-1992 Total	**10,808**	**136**	**17**	**(1,356)**	**9,605**
Obligated Post-1991					
Housing	18,071	74	76	(2,557)	15,664
Community Facility	5,526	46	0	(149)	5,423
Electric	45,199	24	0	(676)	44,547
Telecommunication	4,351	1	0	(137)	4,215
Water and Environmental	12,082	87	0	(305)	11,864
Intermediary Relending	394	2	0	(111)	285
Business and Industry	39	0	0	11	50
Economic Development	183	0	0	(15)	168
Post-1991 Total	**85,845**	**234**	**76**	**(3,939)**	**82,216**
Cushion of Credit Advance Payments	**(5,069)**	**0**	**0**	**0**	**(5,069)**
Total Direct Loans Receivable	**91,584**	**370**	**93**	**(5,295)**	**86,752**
Defaulted Guaranteed Loans					
Post-1991					
Housing	1,163	1	0	(1,129)	35
Community Facility	15	0	0	(1)	14
Business and Industry	295	2	0	(53)	244
Total Defaulted Guaranteed Loans	**$ 1,473**	**$ 3**	**$ 0**	**$ (1,183)**	**$ 293**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 87,045**

[2] The allowance for Direct Loans Obligated pre-1992 are valued at Net Realizable value, while Direct Loans Obligated post-1991 and Defaulted Guaranteed Loans are valued at Net Present value.

NOTE 6: 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 2015 to FY 2016. The subsidy cost allowance in FY 2016 was $3,556 million compared to $5,122 million in FY 2015, a decrease of $1,566 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2016**	**FY 2015**
Beginning Balance of the Subsidy Cost Allowance	$ 5,122	$ 5,364
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	(99)	(41)
Default costs (net of recoveries)	84	84
Fees and other collections	(11)	(28)
Other subsidy costs	(65)	(66)
Total of the above subsidy expense components	(91)	(51)
Adjustments:		
Loan modifications	4	3
Fees received	70	67
Loans written off	(1,159)	202
Subsidy allowance amortization	(107)	215
Other	(286)	(645)
Ending balance of the subsidy cost allowance before reestimates	3,553	5,155
Add or subtract reestimates by component:		
Interest rate reestimates	(78)	39
Technical/default reestimates	81	(72)
Total of the above reestimate components	3	(33)
Ending Balance of the Subsidy Cost Allowance	**$ 3,556**	**$ 5,122**

NOTE 6: 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 2016 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 2016 and 2015 by program. Total direct loan subsidy expense in FY 2016 was $(84) million compared to $(81) million in FY 2015, a decrease of $3 million. Reestimate variances are discussed in the Analysis of Direct Loans.

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	
FY 2016										
Housing	$ 48	$ 44	$ 0	$ 11	$ 103	$ 4	$ (7)	$ (75)	$ (82)	**$ 25**
Community Facility	(116)	29	0	(5)	(92)	0	(42)	218	176	**84**
Electric	(104)	7	(11)	(41)	(149)	0	101	2	103	**(46)**
Telecommunications	1	3	0	(10)	(6)	0	(48)	(74)	(122)	**(128)**
Water and Environmental	63	1	0	(20)	44	0	(80)	2	(78)	**(34)**
Intermediary Relending	5	0	0	0	5	0	0	0	0	**5**
Business and Industry	0	0	0	0	0	0	0	9	9	**9**
Economic Development	4	0	0	0	4	0	(2)	(1)	(3)	**1**
Total Subsidy Expense, Direct	**$ (99)**	**$ 84**	**$ (11)**	**$ (65)**	**$ (91)**	**$ 4**	**$ (78)**	**$ 81**	**$ 3**	**$ (84)**
FY 2015										
Housing	$ 49	$ 35	$ 0	$ 2	$ 86	$ 4	$ 23	$ (57)	$ (34)	**$ 56**
Community Facility	(49)	17	0	(5)	(37)	0	(6)	97	91	**54**
Electric	(134)	13	(28)	(41)	(190)	(1)	41	(240)	(199)	**(390)**
Telecommunications	(1)	18	0	(9)	8	0	(34)	256	222	**230**
Water and Environmental	83	1	0	(13)	71	0	15	(148)	(133)	**(62)**
Intermediary Relending	5	0	0	0	5	0	0	2	2	**7**
Business and Industry	0	0	0	0	0	0	0	18	18	**18**
Economic Development	6	0	0	0	6	0	0	0	0	**6**
Total Subsidy Expense, Direct	**$ (41)**	**$ 84**	**$ (28)**	**$ (66)**	**$ (51)**	**$ 3**	**$ 39**	**$ (72)**	**$ (33)**	**$ (81)**

NOTE 6: Continued

Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4**. Direct loans disbursed in FY 2016 were $7,048 million compared to $7,226 million in FY 2015, a decrease of $178 million.

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

	FY 2016	FY 2015	FY 2016 Over/Under FY 2015
Housing	$ 1,109	$ 1,005	$ 104
Community Facility	1,230	815	415
Electric	3,433	3,853	(420)
Telecommunications	362	573	(211)
Water and Environmental	854	899	(45)
Intermediary Relending	17	17	0
Business and Industry	4	7	(3)
Economic Development	39	57	(18)
Total Direct Loans Disbursed	**$ 7,048**	**$ 7,226**	**$ (178)**

NOTE 6: Continued

Subsidy rates are used to compute each year's subsidy expense. **Table 5** has the direct loan subsidy rates for FY 2016 as provided in the Federal Credit Supplement to the Budget of the U.S. Government. The subsidy rates disclosed in **Table 5** pertain only to the FY 2016 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 2016	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	1.54	4.90	0.00	0.31	6.75
Section 504 Housing Repair	16.91	-0.04	0.00	-3.84	13.03
Single Family Housing Credit Sales	-9.83	2.29	0.00	2.67	-4.87
Section 514 Farm Labor Housing	28.77	0.37	0.00	-0.68	28.46
Section 515 Multi-Family Housing	28.81	0.75	0.00	0.07	29.63
Section 523 Self-Help Housing Land Development	-0.35	0.00	0.00	0.05	-0.30
Section 524 Housing Site Development	-2.46	0.00	0.00	0.93	-1.53
Multi-Family Housing Credit Sales	Not Funded				
Multi-Family Housing Relending	31.27	0.00	0.00	-0.01	31.26
Multi-Family Housing Revitalization Seconds	53.64	0.53	0.00	-0.05	54.12
Multi-Family Housing Revitalization Zero	52.46	0.39	0.00	-0.17	52.68
Community Facilities	-12.68	3.67	0.00	0.97	-8.04
Distance Learning and Telemedicine	Not Funded				
Broadband	0.17	25.02	0.00	-2.39	22.80
Water & Environmental	4.80	0.14	0.00	-2.33	2.61
Electric Hardship	Not Funded				
FFB Electric	-4.30	0.06	0.00	-0.73	-4.97
Telephone Hardship	Not Funded				
Telephone Treasury	0.16	0.68	0.00	-0.81	0.03
FFB Telephone	0.17	0.36	0.00	-3.27	-2.74
Intermediary Relending Program	27.90	1.34	0.00	-1.62	27.62
Rural Economic Development	13.42	0.00	0.00	-0.03	13.39
Rural Microenterprise	8.24	3.09	0.00	0.00	11.33
Electric Underwriters	0.01	5.21	-5.23	0.01	0.00
Rural Energy Savings Program	12.83	1.42	0.00	-0.91	13.34

NOTE 6: Continued

ANALYSIS OF DIRECT LOANS

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

RURAL HOUSING PROGRAMS

Direct Single Family Housing

The Housing Program had an overall downward reestimate of $82 million comprised primarily of a $76 million downward reestimate in the Section 502-Single Family Housing. The reestimate was mostly due to a increase in prepayments in cohort years 2015 and 2016. Since this program had payment assistance that brings the borrower interest rate to 1 percent, which is lower than the Single Effective Rate (SER), it would cause a downward reestimate.

Direct Community Facility

The Community Facilities Program had an overall upward reestimate of $176 million. The projected future interest from borrowers declined due to higher projected prepayments for the 2012 through 2016 cohorts, which was partially offset by a $54 million downward reestimate in the 2011 cohort caused by a decrease in projected borrowing costs as a result of the cohort's interest rate reestimate.

Defaulted Guaranteed Loans

In FY 2016, the post-1991 Housing Program had a significant decrease in the defaulted guaranteed loans receivable and corresponding allowance. RD policy changed to suspend referral for Treasury debt offset. Previously, losses paid were referred to Treasury for collection. Losses referred to Treasury were recalled. As a result, RD wrote off approximately $1 billion.

RURAL UTILITIES PROGRAMS

Direct Electric Programs

The Direct Electric Programs had an overall upward reestimate of $103 million comprised primarily of a $137 million upward reestimate in the FFB Underwriting Program, a $91 million downward reestimate in the Electric Municipal Program, and a $43 million upward reestimate in the Electric Note Extension Program. The upward reestimate in the FFB Underwriting Program is attributed to more current interest rate projections being used in the economic assumptions. Lower projected future interest rates occurred as a result of the updated assumptions, and caused a decrease in total scheduled interest payments. The downward reestimate within the Electric Municipal Program is attributed to higher actual and higher projected loan prepayments. The upward reestimate in the Electric Note Extension Program is do to an update of actual interest received. The update decreased the amount of interest received for 2015 thus increasing the Agency's cost of administering the program.

NOTE 6: Continued

Direct Water and Waste

The Water and Environmental Program had an overall downward reestimate of $78 million as compared to a $133 million downward reestimate in FY 2015. The impact to the overall downward reestimate was contributed to a decrease in the SER, or the rate at which the Agency pays/earns interest on Treasury borrowings from the previous year. The decrease in the SER created a larger variance between the SER and the borrower interest rate thus reducing the Agency's cost.

NOTE 6: 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 present value in loans receivable and related foreclosed property, net.

Loan Guarantees Outstanding

Guaranteed loans outstanding at the end of FY 2016 increased compared to the FY 2015 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2016 and FY 2015, there were $122.4 billion and $119.7 billion in outstanding principal (face value) and $109.2 billion and $106.7 billion in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2016		
Housing	$ 114,846	$ 103,326
Community Facility	1,216	1,075
Electric	172	172
Water and Environmental	119	106
Business and Industry	6,093	4,516
Total Guarantees Outstanding	**$ 122,446**	**$ 109,195**
FY 2015		
Housing	$ 111,963	$ 100,765
Community Facility	1,285	1,135
Electric	178	178
Water and Environmental	112	99
Business and Industry	6,114	4,520
Total Guarantees Outstanding	**$ 119,652**	**$ 106,697**

NOTE 6: Continued

Liability for Loan Guarantees

Liability for loan guarantees consist of net cash flows (outflows less inflows) paid or to be paid by the entity as a result of the loan guarantees. **Table 6a** shows the loan guarantee liability. **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2016, the total liabilities decreased by $4,064 million compared to FY 2015.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value
FY 2016	
Liability for Loan Guarantees	
Housing	$ 743
Community Facility	40
Electric	0
Water and Environmental	1
Business and Industry	542
Total Liabilities for Loan Guarantees	**$ 1,326**
FY 2015	
Liability for Loan Guarantees	
Housing	$ 4,797
Community Facility	35
Electric	0
Water and Environmental	1
Business and Industry	557
Total Liabilities for Loan Guarantees	**$ 5,390**

NOTE 6: Continued

The Agency continued to process claim payments to lenders in FY 2016 related to the Guaranteed Single Family Housing Program, although the amount in the current year as compared to the previous year is lower.

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

Beginning Balance, Changes, and Ending Balance	**FY 2016**	**FY 2015**
Beginning Balance of the Loan Guarantee Liability	$ 5,390	$ 5,176
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	0	1
Default costs (net of recoveries)	1,168	1,050
Fees and other collections	(1,137)	(1,084)
Other subsidy costs	0	0
Total of the above subsidy expense components	31	(33)
Adjustments:		
Loan guarantee modifications	0	0
Fees received	767	628
Interest supplements paid	(9)	(9)
Claim payments to lenders	(716)	(1,321)
Interest accumulation on the liability balance	181	91
Loans acquired	(264)	(277)
Other	179	231
Ending balance of the loan guarantee before reestimates	5,559	4,486
Add or subtract reestimates by component:		
Interest rate reestimates	36	(13)
Technical/default reestimates	(4,269)	917
Total of the above reestimate components	(4,233)	904
Ending Balance of the Loan Guarantee Liability (Post 1991)	**$ 1,326**	**$ 5,390**

NOTE 6: 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 2016 and FY 2015 by loan program. Total guaranteed loan subsidy expense in FY 2016 was $(4,202) million compared to $871 million in FY 2015, a decrease of $5,073 million. The most significant variance was a result of technical reestimates which are discussed in the Analysis of Guaranteed Loans.

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

Guaranteed Loan Programs	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				GRAND TOTAL
	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modification	Interest Rate	Technical	Total	
FY 2016										
Housing	$ 0	$ 1,059	$ (1,093)	$ 0	$ (34)	$ 0	$ 36	$ (4,267)	$ (4,231)	**$ (4,265)**
Community Facility	0	5	(1)	0	4	0	1	7	8	**12**
Electric	0	0	0	0	0	0	0	0	0	**0**
Water and Environmental	0	0	0	0	0	0	0	0	0	**0**
Business and Industry	0	104	(43)	0	61	0	(1)	(9)	(10)	**51**
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 1,168**	**$ (1,137)**	**$ 0**	**$ 31**	**$ 0**	**$ 36**	**$ (4,269)**	**$ (4,233)**	**$ (4,202)**
FY 2015										
Housing	$ 1	$ 943	$ (1,048)	$ 0	$ (104)	$ 0	$ (14)	$ 1,098	$ 1,084	**$ 980**
Community Facility	0	8	(1)	0	7	0	0	(32)	(32)	**(25)**
Electric	0	0	0	0	0	0	0	0	0	**0**
Water and Environmental	0	0	0	0	0	0	0	0	0	**0**
Business and Industry	0	99	(35)	0	64	0	1	(149)	(148)	**(84)**
Total Subsidy Expense, Guaranteed	**$ 1**	**$ 1,050**	**$ (1,084)**	**$ 0**	**$ (33)**	**$ 0**	**$ (13)**	**$ 917**	**$ 904**	**$ 871**

NOTE 6: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value decreased from $20.8 billion in FY 2015 to $18.0 billion in FY 2016. The housing loan program experienced the largest decrease.

TABLE 8: GUARANTEED LOANS DISBURSED (POST 1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2016		
Housing	$ 16,757	$ 15,081
Community Facility	85	75
Water and Environmental	13	11
Business and Industry	1,157	896
Total Guaranteed Loans Disbursed	**$ 18,012**	**$ 16,063**
FY 2015		
Housing	$ 19,714	$ 17,742
Community Facility	148	131
Water and Environmental	22	19
Business and Industry	877	679
Total Guaranteed Loans Disbursed	**$ 20,761**	**$ 18,571**

Subsidy Rates for Loan Guarantees

Subsidy rates are used to compute each year's subsidy expense. The subsidy rates disclosed in **Table 9** pertain only to the FY 2016 cohorts as provided in the Federal Credit Supplement to the Budget of the U.S. Government. These rates cannot be applied to the guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from current year and prior year cohorts.

TABLE 9: SUBSIDY RATES FOR LOAN GUARANTEES (Percentage)

FY 2016	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	0.00	6.49	-6.64	0.00	-0.15
Section 538 Multi-Family Housing	0.00	5.41	-8.38	0.00	-2.97
Community Facilities	0.00	3.24	-0.88	0.00	2.36
Business and Industry	0.00	7.93	-4.06	0.01	3.88
Water and Environmental	0.00	1.41	-0.86	0.00	0.55
Renewable Energy	0.00	7.91	-1.32	0.01	6.60
Biorefinery (Section 9003 Loan Guarantees)	0.00	26.39	-5.58	1.61	22.42

NOTE 6: Continued

ANALYSIS OF GUARANTEED LOANS

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

RURAL HOUSING PROGRAMS

Single Family Housing Programs

In FY 2016, the Agency implemented a new econometric model to estimate the cost of the Guaranteed Single Family Housing Program. The industry standard model incorporates the use of key loan and borrower attributes and economic variables to better estimate the future program performance. The implementation of this new model, along with lower than previously projected losses for 2015, resulted in significantly lower projected defaults for cohort years 2011through 2016, slightly offset by higher projected default costs for the 2004 through 2008 cohorts, resulting in a net downward reestimate of $4.2 billion.

NOTE 6: 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 2016	FY 2015
Direct Loan Programs		
Total	$ 199	$ 131
Guaranteed Loan Programs		
Total	$ 466	$ 470

NOTE 7: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

CLASSES	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life[3]	Method of Depreciation[4]	Capitalization Threshold
FY 2016						
Personal Property						
Equipment	$ 3	$ 2	$ 1	5-20	SL	$ 25,000
Internal Use Software	188	146	42	5-8	SL	$ 100,000
Internal Use Software in Development	1	0	1		SL	$ 100,000
Total	**$ 192**	**$ 148**	**$ 44**			
FY 2015						
Personal Property						
Equipment	$ 5	$ 2	$ 3	5-20	SL	$ 25,000
Internal Use Software	167	136	31	5-8	SL	$ 100,000
Internal Use Software in Development	1	0	1		SL	$ 100,000
Total	**$ 173**	**$ 138**	**$ 35**			

NOTE 8: OTHER ASSETS

	FY 2016	FY 2015
Intragovernmental		
Advances to Others	$ 0	$ 0
Other Assets	0	0
Total Intragovernmental	**0**	**0**
With the Public		
Investment in Loan Asset Sale Trust[5]	35	35
Other	2	2
Total Other Assets – Non-Governmental	**37**	**37**
Total Other Assets	**$ 37**	**$ 37**

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

NOTE 9: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2016	FY 2015
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 6	$ 6
Total Intragovernmental	**6**	**6**
With the Public		
Federal Employee and Veteran Benefits	36	36
Unfunded Annual Leave	35	35
Contingent Liability	65	65
Total With the Public	**136**	**136**
Total Liabilities Not Covered by Budgetary Resources[6]	**142**	**142**
Total Liabilities Covered by Budgetary Resources	110,425	106,958
Total Liabilities	**$ 110,567**	**$ 107,100**

NOTE 10: DEBT

	Beginning Balance	Net Borrowing	Ending Balance
FY 2016			
Intragovernmental Debt			
Debt to Treasury	$ 49,942	$ (572)	$ 49,370
Debt to the Federal Financing Bank (FFB)	41,701	1,663	43,364
Total Intragovernmental Debt	91,643	1,091	92,734
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 91,643**	**$ 1,091**	**$ 92,734**
FY 2015			
Intragovernmental Debt			
Debt to Treasury	$ 48,905	$ 1,037	$ 49,942
Debt to the Federal Financing Bank (FFB)	42,748	(1,047)	41,701
Total Intragovernmental Debt	91,653	(10)	91,643
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 91,653**	**$ (10)**	**$ 91,643**

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

NOTE 10: Continued

	FY 2016		FY 2015	
Classification of Debt				
Intragovernmental Debt	$	92,734	$	91,643
Debt Held by the Public		0		0
Total Debt	**$**	**92,734**	**$**	**91,643**

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 2016		FY 2015	
Interest Payable, Federal				
Federal Financing Bank	$	25	$	26
Total	**$**	**25**	**$**	**26**

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 2016		FY 2015	
Interest Expense, Federal				
Federal Financing Bank	$	1,489	$	1,533
Treasury		2,159		2,213
Total	**$**	**3,648**	**$**	**3,746**

NOTE 11: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2016			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 14	$ 14
Employer Contributions & Payroll Taxes Payable	0	4	4
Unfunded FECA Liability	4	2	6
Liability for Deposit Fund & Suspense Accounts	0	0	0
Other Liabilities	0	0	0
Total Intragovernmental Debt	**4**	**20**	**24**
Other Accrued Liabilities	0	47	47
Accrued Funded Payroll & Leave	0	15	15
Unfunded Annual Leave	0	35	35
Liability for Advances & Prepayments	0	(10)	(10)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	65	65
Other Liabilities	24	0	24
Total Other Liabilities	**$ 28**	**$ 172**	**$ 200**
FY 2015			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 19	$ 19
Employer Contributions & Payroll Taxes Payable	0	4	4
Unfunded FECA Liability	3	3	6
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**3**	**25**	**28**
Other Accrued Liabilities	0	32	32
Accrued Funded Payroll & Leave	0	12	12
Unfunded Annual Leave	0	35	35
Liability for Advances & Prepayments	0	(9)	(9)
Liability for Deposit Fund & Suspense Accounts	0	(4)	(4)
Contingent Liabilities	0	65	65
Other Liabilities	23	0	23
Total Other Liabilities	**$ 26**	**$ 156**	**$ 182**

These liabilities are or will be covered by Budgetary Resources.

NOTE 12: COMMITMENTS AND CONTINGENCIES

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 related to commitments to extend loan guarantees as of September 30, 2016 and 2015, there were approximately $4.2 billion and $4.3 billion, 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, 2016.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments were deemed probable in FY 2014. As of September 2016, the Office of the General Council has made the determination that a $65 million unfavorable outcome is probable. 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 13: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2016					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 735	$ 12	$ 906	$ 1,995	$ 3,648
Other	293	29	72	29	423
Total Intragovernmental Gross Cost	1,028	41	978	2,024	4,071
Less:					
Intragovernmental Earned Revenue (Note 14)	252	3	160	319	734
Intragovernmental Net Costs	**776**	**38**	**818**	**1,705**	**3,337**
Gross Costs with the Public:					
Grants	10	1,302	720	0	2,032
Loan Cost Subsidies	(4,260)	21	20	(67)	(4,286)
Other	404	38	55	565	1,062
Total Gross Costs with the Public	(3,846)	1,361	795	498	(1,192)
Less:					
Earned Revenues from the Public (Note 14)	660	10	785	1,957	3,412
Net Costs with the Public	**(4,506)**	**1,351**	**10**	**(1,459)**	**(4,604)**
Net Cost of Operations	**$ (3,730)**	**$ 1,389**	**$ 828**	**$ 246**	**$ (1,267)**
FY 2015					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 751	$ 12	$ 880	$ 2,103	$ 3,746
Other	283	25	72	30	410
Total Intragovernmental Gross Cost	1,034	37	952	2,133	4,156
Less:					
Intragovernmental Earned Revenue (Note 14)	172	4	139	274	589
Intragovernmental Net Costs	**862**	**33**	**813**	**1,859**	**3,567**
Gross Costs with the Public:					
Grants	9	1,189	1,093	0	2,291
Loan Cost Subsidies	1,026	10	118	(364)	790
Other	221	30	66	529	846
Total Gross Costs with the Public	1,256	1,229	1,277	165	3,927
Less:					
Earned Revenues from the Public (Note 14)	672	9	766	2,094	3,541
Net Costs with the Public	**584**	**1,220**	**511**	**(1,929)**	**386**
Net Cost of Operations	**$ 1,446**	**$ 1,253**	**$ 1,324**	**$ (70)**	**$ 3,953**

NOTE 13: Continued

Other Disclosures

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

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

NOTE 14: EARNED REVENUES

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Total
FY 2016					
Intragovernmental					
Interest Revenue from Treasury	$ 246	$ 3	$ 158	$ 318	$ 725
Other	6	0	2	1	9
Total Intragovernmental Earned Revenue	**252**	**3**	**160**	**319**	**734**
With the Public					
Interest Revenue	660	10	757	1,957	3,384
Other	0	0	28	0	28
Total Earned Revenues from the Public	**660**	**10**	**785**	**1,957**	**3,412**
Total Earned Revenues	**$ 912**	**$ 13**	**$ 945**	**$ 2,276**	**$ 4,146**
FY 2015					
Intragovernmental					
Interest Revenue from Treasury	$ 163	$ 3	$ 137	$ 273	$ 576
Other	9	1	2	1	13
Total Intragovernmental Earned Revenue	**172**	**4**	**139**	**274**	**589**
With the Public					
Interest Revenue	670	9	752	2,094	3,525
Other	2	0	14	0	16
Total Earned Revenues from the Public	**672**	**9**	**766**	**2,094**	**3,541**
Total Earned Revenues	**$ 844**	**$ 13**	**$ 905**	**$ 2,368**	**$ 4,130**

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 **6.**

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 14: 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 15: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

	Direct	Reimbursable	Total
FY 2016			
Category A-Apportionment by Fiscal Quarter	$ 209	$ 468	$ 677
Category B-Apportionment by Special Activities	23,526	0	23,526
Total Obligations Incurred	**$ 23,735**	**$ 468**	$ 24,203
FY 2015			
Category A-Apportionment by Fiscal Quarter	$ 204	$ 467	$ 671
Category B-Apportionment by Special Activities	21,780	0	21,780
Total Obligations Incurred	**$ 21,984**	**$ 467**	$ 22,451

NOTE 16: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2016 and 2015, the amount of available borrowing authority was $18.8 billion and $18.6 billion, respectively.

NOTE 17: TERMS OF BORROWING AUTHORITY USED

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 account 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 18: PERMANENT INDEFINITE APPROPRIATIONS

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

Permanent indefinite appropriations are mainly applicable to program accounts for reestimates related to upward adjustments of subsidy. Under unique situations, both liquidating and financing accounts may receive appropriations. 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, servicing actions, 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 19: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Purpose

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 19: 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 18)**.

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

The 2018 Budget of the United States Government, with the "Actual" columns completed for FY 2016, 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 2017. The Budget will be available from the Government Printing Office.

The 2017 Budget of the United States Government, with the "Actual" columns completed for FY 2015, was published in February of 2016 and reconciled to the SBR.

The reconciling items represent:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President's Budget "Actual" columns per OMB Circular No. A-11 but is included in the SBR.

- In FY 2015, Working Capital (12X4609) and Biomass Research and Development, Natural Resources Conservation Services (12X1003) was included in the SBR, but was not included in the Rural Development Budget section.

- In FY 2015, 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 20: Continued

Reconciliation Between FY 2015 Combined Statement of Budgetary Resources and the President's Budget

Applicable Line from SBR	Amount from SBR	Applicable Line from President's Budget	Amount from President's Budget	Legitimate Differences	Reporting Errors
Total Budgetary Resources (Line 1910)	$40,068	Total Budgetary Resources Available for Obligation	$39,934	**$ 134** E 128 R 2 A 4	None
Obligations Incurred (Line 2190)	$22,451	Total New Obligations	$22,442	**$ 9** E 4 R 5	None
Distributed Offsetting Receipts (Line 4200)	($1,343)	Treasury Combined Statement (Receipts by Department)	($1,343)	**$ 0**	None
Total Net Outlays (Line 4190)	$2,039	Outlays	$2,036	**$ 3** R 3	None

<u>LEGEND</u>
E = Expired Budgetary Authority
R = Rounding
A = Adjustment

NOTE 21: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2016 and 2015, the amount of undelivered orders was $24.9 billion and $23.9 billion, respectively. The remaining amount as presented on the financial statement line is attributed to delivered orders.

NOTE 22: ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

	FY 2016 Obligated	FY 2015 Obligated
Beginning Balances	$ 23,458	$ 26,192
Adjustments	0	0
Beginning Balances, as adjusted	**$ 23,458**	**$ 26,192**

NOTE 23: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2016	FY 2015
Sources of Collections		
Recoveries and Refunds	3	2
Total Revenue Collected	**3**	**2**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	3	2
Total Disposition of Revenue	**3**	**2**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 24: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2016	FY 2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 24,203	$ 22,451
Less: Spending Authority from Offsetting Collections and Recoveries	20,031	23,146
Obligations Net Offsetting Collections and Recoveries	4,172	(695)
Less: Offsetting Receipts	1,517	1,343
Net Obligations	2,655	(2,038)
Other Resources		
Imputed Financing from Costs Absorbed by Others	196	171
Other	(7,947)	(1,295)
Net Other Resources Used to Finance Activities	(7,751)	(1,124)
Total Resources Used to Finance Activities	**(5,096)**	**(3,162)**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(979)	2,817
Resources that Fund Expenses Recognized in Prior Periods	(11,762)	(3,240)
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	18,451	19,699
Change in Unfilled Customer Orders	(25)	(80)
Other	1,517	1,343
Resources that Finance the Acquisition of Assets	(14,878)	(16,384)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,947	1,295
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**271**	**5,450**
Total Resources Used to Finance the Net Cost of Operations	**(4,825)**	**2,288**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(1)	2
Upward/Downward Reestimates of Credit Subsidy Expense	3,427	1,668
Other	0	(3)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	3,426	1,667
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	10	13
Revaluation of Assets or Liabilities	0	2
Other Components Not Requiring or Generating Resources:		
Bad Debt Expense	131	3
Other	(9)	(20)
Total Components of Net Cost of Operations That Will Not Require or Generated Resources	132	(2)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**3,558**	**1,665**
Net Cost of Operations	**$ (1,267)**	**$ 3,953**

NOTE 25: FIDUCIARY ACTIVITY

Refer to **Note 1C** regarding the implementation of SFFAS 31, Accounting for Fiduciary Activity.

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, 2016 and 2015

	FY 2016	FY 2015
Fiduciary Net Assets, beginning of year	**$ 107**	**$ 105**
Contributions	427	438
Disbursements	421	436
Increase/Decrease in Fiduciary Fund Balances	**6**	**2**
Fiduciary Net Assets, end of year	**$ 113**	**$ 107**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2016 and 2015

	FY 2016	FY 2015
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 6	$ 2
Investments – Short Term	7	105
Investments – Long Term	100	0
Total Fiduciary Net Assets	**$ 113**	**$ 107**

NOTE 26: CHANGE IN ACCOUNTING ESTIMATE

Beginning in FY 2016, the Guaranteed Single Family Housing (GSFH) program started using an econometric model to develop credit subsidy formulation estimates and reestimates. This was a change from previous fiscal years where a historical weighted average approach was used.

Rural Development made the change to an econometric model after experiencing several years of large fluctuations in the Liability for Loan Guarantee year-end balances. The historical weighted average approach for projecting cash flows relied on averages of actual loan performance data, and could not adequately predict future cash flows for the GSFH program based on the volatile economy. For example, during the housing crisis the model was inadequate at capturing the projected losses that were likely to occur given the observed decline in housing prices and increased defaults. Furthermore, in FY 2015, the historical approach did not account for lower loss settlements in the GSFH program given the tightened credit environment, improved housing market, and increased participation in the program. Had the econometric been used to calculate subsidy costs in FY 2015, the resulting downward reestimate for the GSFH program would have been $2.3 billion, lowering the GSFH Liability for Loan Guarantees to $1.4 billion and lowering the net cost to $550 million. The FY 2016 Net Cost of Operation is ($1.3) billion.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	**Rural Community Advancement Programs**	**Rural Community Advancement Programs**	**Rural Community Advancement Programs**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 196	$ 1,669	$ 456	$ 927
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	196	1,669	456	927
Recoveries of Prior Year Unpaid Obligations	80	319	101	362
Other Changes in Unobligated Balance	(30)	(1,467)	(241)	(573)
Unobligated Balance from Prior Year Budget Authority, Net	246	521	316	716
Appropriations	837	0	874	0
Borrowing Authority (Notes 16 and 17)	0	3,757	0	3,607
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	13	1,646	26	1,605
Total Budgetary Resources	**1,096**	**5,924**	**1,216**	**5,928**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	951	4,840	1,020	4,259
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	143	860	164	1,389
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	224	27	280
Unexpired Unobligated Balance, End of Year	143	1,084	191	1,669
Expired Unobligated Balance, End of Year	2	0	5	0
Total Unobligated Balance, End of Year	145	1,084	196	1,669
Total Budgetary Resources	**1,096**	**5,924**	**1,216**	**5,928**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	2,308	6,959	2,414	6,035
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	951	4,840	1,020	4,259
Outlays	(904)	(3,451)	(1,025)	(2,973)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(80)	(319)	(101)	(362)
Unpaid Obligations, End of Year	2,275	8,029	2,308	6,959
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(192)	0	(286)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	30	0	94
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(162)	0	(192)
Memorandum Entries:				
Obligated Balance, Start of Year	2,308	6,767	2,414	5,749
Obligated Balance, End of Year	2,275	7,867	2,308	6,767
Budget Authority and Outlays, Net:				
Budget Authority, Gross	850	5,403	900	5,212
Actual Offsetting Collections	(126)	(2,368)	(137)	(2,397)
Change in Uncollected Customer Payments From Federal Sources	0	30	0	94
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**724**	**3,065**	**763**	**2,909**
Outlays, Gross	904	3,451	1,025	2,973
Actual Offsetting Collections	(126)	(2,368)	(137)	(2,397)
Outlays, Net	778	1,083	888	576
Distributed Offsetting Receipts	0	(409)	0	(313)
Agency Outlays, Net	**$ 778**	**$ 674**	**$ 888**	**$ 263**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 5,251	$ 4,991	$ 5,088	$ 2,449
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	5,251	4,991	5,088	2,449
Recoveries of Prior Year Unpaid Obligations	0	543	0	2,286
Other Changes in Unobligated Balance	(12)	(3,399)	(12)	(2,652)
Unobligated Balance from Prior Year Budget Authority, Net	5,239	2,135	5,076	2,083
Appropriations	1,343	0	1,308	2
Borrowing Authority (Notes 16 and 17)	0	4,674	0	4,202
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,814	5,276	1,715	5,393
Total Budgetary Resources	**8,396**	**12,085**	**8,099**	**11,680**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	2,306	6,877	2,848	6,689
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,311	5,207	3,244	4,991
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	775	1	1,999	0
Unexpired Unobligated Balance, End of Year	6,086	5,208	5,243	4,991
Expired Unobligated Balance, End of Year	4	0	8	0
Total Unobligated Balance, End of Year	6,090	5,208	5,251	4,991
Total Budgetary Resources	**8,396**	**12,085**	**8,099**	**11,680**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	3	12,288	3	15,146
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	2,306	6,877	2,848	6,689
Outlays	(2,291)	(6,537)	(2,848)	(7,261)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(543)	0	(2,286)
Unpaid Obligations, End of Year	18	12,085	3	12,288
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(1)	0	(2)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	1
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(1)	0	(1)
Memorandum Entries:				
Obligated Balance, Start of Year	3	12,287	3	15,144
Obligated Balance, End of Year	18	12,084	3	12,287
Budget Authority and Outlays, Net:				
Budget Authority, Gross	3,157	9,950	3,023	9,597
Actual Offsetting Collections	(2,556)	(6,619)	(2,391)	(10,121)
Change in Uncollected Customer Payments From Federal Sources	0	0	0	1
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**601**	**3,331**	**632**	**(523)**
Outlays, Gross	2,291	6,537	2,848	7,261
Actual Offsetting Collections	(2,556)	(6,619)	(2,391)	(10,121)
Outlays, Net	(265)	(82)	457	(2,860)
Distributed Offsetting Receipts	0	(806)	0	(649)
Agency Outlays, Net	**$ (265)**	**$ (888)**	**$ 457**	**$ (3,509)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	**Rural Telephone Bank Funds**	**Rural Telephone Bank Funds**	**Rural Telephone Bank Funds**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 3	$ 16	$ 3	$ 27
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	3	16	3	27
Recoveries of Prior Year Unpaid Obligations	0	8	0	8
Other Changes in Unobligated Balance	0	(24)	0	(35)
Unobligated Balance from Prior Year Budget Authority, Net	3	0	3	0
Appropriations	3	0	4	0
Borrowing Authority (Notes 16 and 17)	0	1	0	2
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	30	0	28
Total Budgetary Resources	**6**	**31**	**7**	**30**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	3	11	4	14
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	0	20	0	16
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	0	20	0	16
Expired Unobligated Balance, End of Year	3	0	3	0
Total Unobligated Balance, End of Year	3	20	3	16
Total Budgetary Resources	**6**	**31**	**7**	**30**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1	55	1	63
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	3	11	4	14
Outlays	(3)	(11)	(4)	(14)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(8)	0	(8)
Unpaid Obligations, End of Year	1	47	1	55
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(1)	0	(1)
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	(1)	0	(1)
Memorandum Entries:				
Obligated Balance, Start of Year	1	54	1	62
Obligated Balance, End of Year	1	46	1	54
Budget Authority and Outlays, Net:				
Budget Authority, Gross	3	31	4	30
Actual Offsetting Collections	0	(48)	0	(47)
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**3**	**(17)**	**4**	**(17)**
Outlays, Gross	3	11	4	14
Actual Offsetting Collections	0	(48)	0	(47)
Outlays, Net	3	(37)	4	(33)
Distributed Offsetting Receipts	0	(1)	0	(2)
Agency Outlays, Net	**$ 3**	**$ (38)**	**$ 4**	**$ (35)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 180	$ 4,243	$ 142	$ 4,472
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	180	4,243	142	4,472
Recoveries of Prior Year Unpaid Obligations	14	76	11	62
Other Changes in Unobligated Balance	(102)	(619)	(61)	(865)
Unobligated Balance from Prior Year Budget Authority, Net	92	3,700	92	3,669
Appropriations	3,631	0	1,590	0
Borrowing Authority (Notes 16 and 17)	0	1,410	0	925
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	135	5,322	109	3,146
Total Budgetary Resources	**3,858**	**10,432**	**1,791**	**7,740**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	3,679	2,749	1,611	3,497
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	64	4,803	92	1,558
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	45	2,880	15	2,685
Unexpired Unobligated Balance, End of Year	109	7,683	107	4,243
Expired Unobligated Balance, End of Year	70	0	73	0
Total Unobligated Balance, End of Year	179	7,683	180	4,243
Total Budgetary Resources	**3,858**	**10,432**	**1,791**	**7,740**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	139	591	137	575
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	3,679	2,749	1,611	3,497
Outlays	(3,655)	(2,669)	(1,598)	(3,419)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(14)	(76)	(11)	(62)
Unpaid Obligations, End of Year	149	595	139	591
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(81)	0	(77)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	(4)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(81)	0	(81)
Memorandum Entries:				
Obligated Balance, Start of Year	139	510	137	498
Obligated Balance, End of Year	149	514	139	510
Budget Authority and Outlays, Net:				
Budget Authority, Gross	3,766	6,732	1,699	4,071
Actual Offsetting Collections	(548)	(5,723)	(533)	(3,357)
Change in Uncollected Customer Payments From Federal Sources	0	0	0	(4)
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**3,218**	**1,009**	**1,166**	**710**
Outlays, Gross	3,655	2,669	1,598	3,419
Actual Offsetting Collections	(548)	(5,723)	(533)	(3,357)
Outlays, Net	3,107	(3,054)	1,065	62
Distributed Offsetting Receipts	0	(151)	0	(373)
Agency Outlays, Net	**$ 3,107**	**$ (3,205)**	**$ 1,065**	**$ (311)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 30	$ 0	$ 49	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	30	0	49	0
Recoveries of Prior Year Unpaid Obligations	3	0	5	0
Other Changes in Unobligated Balance	1	0	0	0
Unobligated Balance from Prior Year Budget Authority, Net	34	0	54	0
Appropriations	1,428	0	1,114	0
Borrowing Authority (Notes 16 and 17)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	1	0
Total Budgetary Resources	**1,462**	**0**	**1,169**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	1,451	0	1,139	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	2	0	22	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	1	0	2	0
Unexpired Unobligated Balance, End of Year	3	0	24	0
Expired Unobligated Balance, End of Year	8	0	6	0
Total Unobligated Balance, End of Year	11	0	30	0
Total Budgetary Resources	**1,462**	**0**	**1,169**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	650	0	685	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	1,451	0	1,139	0
Outlays	(1,240)	0	(1,169)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(3)	0	(5)	0
Unpaid Obligations, End of Year	858	0	650	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	650	0	685	0
Obligated Balance, End of Year	858	0	650	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,428	0	1,115	0
Actual Offsetting Collections	(1)	0	(1)	0
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Recoveries of Prior Year Paid Obligations	2	0	1	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1,429**	**0**	**1,115**	**0**
Outlays, Gross	1,240	0	1,169	0
Actual Offsetting Collections	(1)	0	(1)	0
Outlays, Net	1,239	0	1,168	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,239**	**$ 0**	**$ 1,168**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 13	$ 1	$ 22	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	13	1	22	0
Recoveries of Prior Year Unpaid Obligations	4	9	3	12
Other Changes in Unobligated Balance	0	(9)	0	(12)
Unobligated Balance from Prior Year Budget Authority, Net	17	1	25	0
Appropriations	60	0	60	0
Borrowing Authority (Notes 16 and 17)	0	87	0	93
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	38	0	38
Total Budgetary Resources	**77**	**126**	**85**	**131**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	63	115	72	130
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	14	11	13	1
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	14	11	13	1
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	14	11	13	1
Total Budgetary Resources	**77**	**126**	**85**	**131**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	74	141	67	102
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	63	115	72	130
Outlays	(66)	(100)	(62)	(79)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(4)	(9)	(3)	(12)
Unpaid Obligations, End of Year	67	147	74	141
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(45)	0	(28)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	(13)	0	(17)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(58)	0	(45)
Memorandum Entries:				
Obligated Balance, Start of Year	74	96	67	74
Obligated Balance, End of Year	67	89	74	96
Budget Authority and Outlays, Net:				
Budget Authority, Gross	60	125	60	131
Actual Offsetting Collections	0	(56)	0	(44)
Change in Uncollected Customer Payments From Federal Sources	0	(13)	0	(17)
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**60**	**56**	**60**	**70**
Outlays, Gross	66	100	62	79
Actual Offsetting Collections	0	(56)	0	(44)
Outlays, Net	66	44	62	35
Distributed Offsetting Receipts	0	(5)	0	(3)
Agency Outlays, Net	**$ 66**	**$ 39**	**$ 62**	**$ 32**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	**Salaries & Expense**	**Salaries & Expense**	**Salaries & Expense**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 43	$ 0	$ 34	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	43	0	34	0
Recoveries of Prior Year Unpaid Obligations	9	0	10	0
Other Changes in Unobligated Balance	(2)	0	(9)	0
Unobligated Balance from Prior Year Budget Authority, Net	50	0	35	0
Appropriations	226	0	224	0
Borrowing Authority (Notes 16 and 17)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	469	0	467	0
Total Budgetary Resources	**745**	**0**	**726**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	704	0	683	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	28	0	27	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	5	0
Unexpired Unobligated Balance, End of Year	28	0	32	0
Expired Unobligated Balance, End of Year	13	0	11	0
Total Unobligated Balance, End of Year	41	0	43	0
Total Budgetary Resources	**745**	**0**	**726**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	123	0	146	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	704	0	683	0
Outlays	(714)	0	(696)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(9)	0	(10)	0
Unpaid Obligations, End of Year	104	0	123	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(10)	0	(11)	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(2)	0	1	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(12)	0	(10)	0
Memorandum Entries:				
Obligated Balance, Start of Year	113	0	135	0
Obligated Balance, End of Year	92	0	113	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	695	0	691	0
Actual Offsetting Collections	(466)	0	(468)	0
Change in Uncollected Customer Payments From Federal Sources	(2)	0	1	0
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**227**	**0**	**224**	**0**
Outlays, Gross	714	0	696	0
Actual Offsetting Collections	(466)	0	(468)	0
Outlays, Net	248	0	228	0
Distributed Offsetting Receipts	(1)	0	0	0
Agency Outlays, Net	**$ 247**	**$ 0**	**$ 228**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Other	**Other**	**Other**	**Other**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 429	$ 552	$ 704	$ 497
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	429	552	704	497
Recoveries of Prior Year Unpaid Obligations	29	31	125	75
Other Changes in Unobligated Balance	(7)	(326)	(375)	(354)
Unobligated Balance from Prior Year Budget Authority, Net	451	257	454	218
Appropriations	(33)	0	125	0
Borrowing Authority (Notes 16 and 17)	0	244	0	50
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	177	191	208	411
Total Budgetary Resources	**595**	**692**	**787**	**679**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	171	283	358	127
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	324	236	365	370
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	87	173	46	182
Unexpired Unobligated Balance, End of Year	411	409	411	552
Expired Unobligated Balance, End of Year	13	0	18	0
Total Unobligated Balance, End of Year	424	409	429	552
Total Budgetary Resources	**595**	**692**	**787**	**679**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	448	250	907	564
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	171	283	358	127
Outlays	(134)	(292)	(692)	(366)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(29)	(31)	(125)	(75)
Unpaid Obligations, End of Year	456	210	448	250
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(1)	(241)	(1)	(247)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(14)	10	0	6
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(15)	(231)	(1)	(241)
Memorandum Entries:				
Obligated Balance, Start of Year	447	9	906	317
Obligated Balance, End of Year	441	(21)	447	9
Budget Authority and Outlays, Net:				
Budget Authority, Gross	144	435	333	461
Actual Offsetting Collections	(166)	(240)	(209)	(462)
Change in Uncollected Customer Payments From Federal Sources	(14)	10	0	6
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**(36)**	**205**	**124**	**5**
Outlays, Gross	134	292	692	366
Actual Offsetting Collections	(166)	(240)	(209)	(462)
Outlays, Net	(32)	52	483	(96)
Distributed Offsetting Receipts	0	(144)	0	(3)
Agency Outlays, Net	**$ (32)**	**$ (92)**	**$ 483**	**$ (99)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund

Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 6,145	$ 11,472	$ 6,498	$ 8,372
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	6,145	11,472	6,498	8,372
Recoveries of Prior Year Unpaid Obligations	139	986	255	2,805
Other Changes in Unobligated Balance	(152)	(5,844)	(698)	(4,491)
Unobligated Balance from Prior Year Budget Authority, Net	6,132	6,614	6,055	6,686
Appropriations	7,495	0	5,299	2
Borrowing Authority (Notes 16 and 17)	0	10,173	0	8,879
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,608	12,503	2,526	10,621
Total Budgetary Resources	**16,235**	**29,290**	**13,880**	**26,188**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	9,328	14,875	7,735	14,716
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,886	11,137	3,927	8,325
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	908	3,278	2,094	3,147
Unexpired Unobligated Balance, End of Year	6,794	14,415	6,021	11,472
Expired Unobligated Balance, End of Year	113	0	124	0
Total Unobligated Balance, End of Year	6,907	14,415	6,145	11,472
Total Budgetary Resources	**16,235**	**29,290**	**13,880**	**26,188**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	3,746	20,284	4,360	22,485
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	9,328	14,875	7,735	14,716
Outlays	(9,007)	(13,060)	(8,094)	(14,112)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(139)	(986)	(255)	(2,805)
Unpaid Obligations, End of Year	3,928	21,113	3,746	20,284
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(11)	(561)	(12)	(641)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(16)	27	1	80
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(27)	(534)	(11)	(561)
Memorandum Entries:				
Obligated Balance, Start of Year	3,735	19,723	4,348	21,844
Obligated Balance, End of Year	3,901	20,579	3,735	19,723
Budget Authority and Outlays, Net:				
Budget Authority, Gross	10,103	22,676	7,825	19,502
Actual Offsetting Collections	(3,863)	(15,054)	(3,739)	(16,428)
Change in Uncollected Customer Payments From Federal Sources	(16)	27	1	80
Recoveries of Prior Year Paid Obligations	2	0	1	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**6,226**	**7,649**	**4,088**	**3,154**
Outlays, Gross	9,007	13,060	8,094	14,112
Actual Offsetting Collections	(3,863)	(15,054)	(3,739)	(16,428)
Outlays, Net	5,144	(1,994)	4,355	(2,316)
Distributed Offsetting Receipts	(1)	(1,516)	0	(1,343)
Agency Outlays, Net	**$ 5,143**	**$ (3,510)**	**$ 4,355**	**$ (3,659)**

OTHER INFORMATION (Unaudited)

COMBINED SCHEDULE OF SPENDING

The Combined Schedule of Spending presented is an overview of the fiscal year (FY) 2016 resources of Rural Development and how they were used. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources. This schedule is presented to help the public better understand what money is provided to Rural Development, how Rural Development spent that money, and to whom the money was paid.

What money is Available to Spend represents the authority that Rural Development was given to spend by law and the status of that authority.

- *Total Resources represent amounts approved for spending by law.*
- *Less Amount Available but Not Agreed to be Spent represents amounts that Rural Development was allowed to spend but did not take actions to spend.*
- *Less Amount Not Available to be Spent represents the amount of total budgetary resources that were not approved for spending.*
- *Total Amounts Agreed to be Spent represents the amount of spending actions taken by Rural Development for the fiscal year. This represents contracts, orders, and other legally binding obligations of the federal government to pay for goods and services when received.*

How was the Money Spent/Issued provides additional details, by major cost category, of the Total Amounts Agreed to be Spent.

Who did the Money Go To identifies the recipients, by federal and non-federal category, of the Amounts Agreed to be Spent.

The data contained in USASpending.gov does not always align with data in the Schedule of Spending or the Statement of Budgetary Resources. Differences in timing and reporting requirements contribute to the variances. USASpending.gov does not report grant, loan, and other financial assistance transactions under $25,000, nor does it include federal salary and compensation data and appropriation amounts among other transactions, which are included on the Schedule of Spending and the Statement of Budgetary Resources.

Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary	2015 Budgetary	2015 Non-Budgetary
Combined Schedule of Spending				
What Money is Available to Spend?				
Total Resources	$ 16,235	$ 29,290	$ 13,880	$ 26,188
Less Amount Available but Not Agreed to be Spent	5,886	11,137	3,927	8,325
Less Amount Not Available to be Spent	1,021	3,278	2,218	3,147
Total Amounts Agreed to be Spent	$ 9,328	$ 14,875	$ 7,735	$ 14,716
How Was the Money Spent/Issued?				
Category 11				
Full-time, Non-Wage-Board U.S.	$ 354	$ 0	$ 344	$ 0
Time-off Awards	1	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	2	0
Base Pay Experts and Consultants	0	0	1	0
Other Awards	3	0	3	0
Non-Wage Board Employees	2	0	2	0
Lump Sum Payment for Annual Leave-Permanent Appointments Non-Wage-Board Employees	2	0	2	0
Payroll Salary Accrued	3	0	2	0
Category 12				
Federal Employee Government Life Insurance-Agency Contribution	1	0	1	0
Federal Employee Health Benefits-Agency Contribution	40	0	39	0
Civil Service Retirement System 7% Coverage Code 1-Agency Contribution	3	0	3	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
Transitional Old Age Survivor	1	0	1	0
FERS Regular Contributions	42	0	39	0
Full OASDI Contributions-FERS (L)	18	0	17	0

OTHER INFORMATION (Unaudited)

Amounts Presented in Millions

	2016 Budgetary	2016 Non-Budgetary	2015 Budgetary	2015 Non-Budgetary
Thrift Savings Plan (TSP) Government Basic Contribution	3	0	3	0
TSP Government Matching Contribution	11	0	10	0
Category 21				
Common Carrier-Domestic	2	0	2	0
Mileage Allowance-Domestic	1	0	1	0
Per Diem-Domestic	5	0	6	0
Other Travel - Domestic	1	0	1	0
Automobile Rental-Sedan and Station Wagon Rental General Service Administration	4	0	3	0
Category 23				
Building Rental	0	0	1	0
Building Rental-General Services Administration	0	0	1	0
Commercial Telecom Service Non-General Services Administration	1	0	1	0
Building Rental Non-General Services Administration	14	0	15	0
Postage and Related Fees	4	0	4	0
Central Mail Distribution	0	0	1	0
Category 24				
Printing and Reproduction	1	0	1	0
Printing, Binding, Etc.	1	0	1	0
Category 25				
Other Services	660	2,262	704	2,781
Contractual Services Performed by Other Agencies	4	0	5	0
Training, Tuition, Fees, Etc.	1	0	2	0
Repair, Alteration, or Maintenance of Space (Interior)	1	0	3	0
Repair, Alteration, or Maintenance Office Equipment	1	0	1	0
Contractual Services-Other	51	0	12	0
Agreements	71	0	69	0
Other Agreements	31	0	31	0
Miscellaneous Services	1	0	1	0
Equipment Use Estimate	(5)	0	4	0
Category 26				
Supplies and Materials	0	0	1	0
Supplies and Materials-General	1	0	1	0
Supplies and Materials-Office-Central Supply Stores	1	0	1	0
Category 31				
Machinery and Equipment (Capitalized and Accountable) IT Hardware	1	0	0	0
Non-Capitalized Equipment	1	0	2	0
Equipment-Other ($5K-24, 999)	0	0	0	0
Machinery and Equipment (Capitalized) Non-PC	(1)	0	0	0
Category 33				
Investments and Loans	1,597	8,994	2,005	7,877
Investments Other Funds	0	0	1	0
Category 41				
Grants, Subsidies, and Contributions	6,329	0	4,288	0
Category 42				
Lit Fee and Awards	1	0	1	0
Category 43				
Interest and Dividends	51	3,619	84	4,058
Total Amounts Agreed To Be Spent	**$ 9,328**	**$ 14,875**	**$ 7,735**	**$ 14,716**
Who Did the Money Go To?				
Federal	5,038	5,249	3,813	5,609
Non-Federal	4,290	9,626	3,922	9,107
Total Amounts Agreed To Be Spent	**$ 9,328**	**$ 14,875**	**$ 7,735**	**$ 14,716**

Learn more about USDA OIG
Visit our website: www.usda.gov/oig/index.htm
Follow us on Twitter: @OIGUSDA

How to Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse
File complaint online: www.usda.gov/oig/hotline.htm

Monday–Friday, 9:00 a.m.– 3:00 p.m. ET
In Washington, DC 202-690-1622
Outside DC 800-424-9121
TDD (Call Collect) 202-690-1202

Bribes or Gratuities
202-720-7257 (24 hours)