USDA

United States Department of Agriculture

Rural Development's Financial Statements for Fiscal Years 2019 and 2018

Audit Report 85401-0010-11

November 2019

OFFICE OF INSPECTOR GENERAL

Rural Development's Financial Statements for Fiscal Years 2019 and 2018

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OIG audited the consolidated financial statements of Rural Development for fiscal years 2019 and 2018.

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) Rural Development complied with applicable laws and regulations; and (4) information was materially consistent with other sources.

REVIEWED

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

RECOMMENDS

This report does not contain recommendations.

WHAT OIG FOUND

Rural Development received an unmodified opinion from the Office of Inspector General's audits of Rural Development's consolidated financial statements. We determined that the agency's financial statements present fairly Rural Development's financial position as of September 30, 2019 and 2018, 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 no material weaknesses and our consideration of compliance with laws and regulations noted no instances of noncompliance.

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

DATE: November 8, 2019

AUDIT NUMBER: 85401-0010-11

TO: Donald J. LaVoy
Deputy Under Secretary
for Rural Development

ATTN: Tony Bainbridge
Chief Financial Officer
Rural Development

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2019 and 2018

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2019 and 2018. 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 A.

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.

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Independent Auditor's Report

Donald J. LaVoy
Deputy Under Secretary
for Rural Development

The Department of Agriculture's Office of Inspector General audited the consolidated financial statements of Rural Development for fiscal years 2019 and 2018. 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 on these consolidated financial statements.

Exhibit A presents Rural Development's response in its entirety.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rural Development, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 19-03, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 19-03 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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, 2019 and 2018, 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

Interactive Data

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, management included a reference in note 19 to a website outside of the financial statements to provide additional information for the users of its financial statements. The information on this website has not been subjected to any of our auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Required Supplementary Information (RSI)[1] be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses

[1] The RSI consists of Management's Discussion and Analysis, and the Combined Statement of Budgetary Resources by Major Fund.

to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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 Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Development's internal control over financial reporting 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. Accordingly, we do not express an opinion on the effectiveness of Rural Development's internal control. 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 purpose described in the preceding paragraph and was not designed to identify all deficiencies in 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 19-03 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. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audit.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 disclosure in the financial statements. 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.

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 amounts and disclosure in the financial statements.

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 controls over financial reporting and compliance. Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

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 effect on the determination of material amounts and disclosure in the financial statements that we deemed applicable to Rural

Development's financial statements for the fiscal year ended September 30, 2019. We caution that noncompliance may occur and not be detected by these tests.

Management's Response

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

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements" sections of this report is solely to describe the scope of our testing of internal control and compliance and the results 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, 2019

Abbreviations

FASAB........................Federal Accounting Standards Advisory Board
FFMIA ....Federal Financial Management Improvement Act of 1996
FMFIA ....Federal Managers' Financial Integrity Act of 1982
OMB ....Office of Management and Budget
RSI ....Required Supplementary Information
U.S. ....United States of America

RURAL DEVELOPMENT'S RESPONSE TO AUDIT REPORT

USDA

United States Department of Agriculture

Rural Development Business Center

Chief Financial Officer

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November 7, 2019

TO: Gil Harden
Assistant Inspection General for Audit
Office of the Inspector General
United States Department of Agriculture

FROM: Donald J. LaVoy
Deputy Under Secretary
Rural Development

Tony Bainbridge
Chief Financial Officer

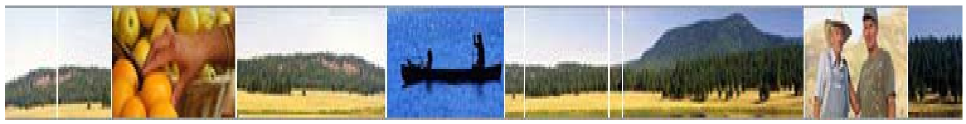
SUBJECT: Response to Draft Audit Report on Rural Development's Fiscal Year 2019 Financial Statements

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2019 Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree with their contents.

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

RURAL DEVELOPMENT'S
FISCAL YEARS 2019 and 2018
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT



"Together, America Prospers"

Fiscal Years
2019 and 2018

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, 2019 AND 2018

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Rural Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

Mission Statement

Rural Development is committed to helping improve the economy and quality of life in all of rural America by providing financial programs to support essential public facilities and services such as water and sewer systems, emergency service facilities, electric and telephone service, health clinics and housing. Rural Development promotes economic development by providing financial support to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

Strategic Goals

Ensure Rural Development programs are delivered efficiently, effectively, with integrity and a focus on customer service, facilitating rural prosperity and economic development.

Organizational Structure

Rural Development's mission area is comprised of Rural Utilities Service (RUS), Rural Business-Cooperative Service (RBS), and Rural Housing Service (RHS). Programs are delivered through the National Office, state offices, and a network of field offices. There is an Innovation Center, a focused team of staff from around the nation that works to identify best practices and bring continuous improvement in program delivery. Rural Development is supported by various internal organizations that provide financial, technology, procurement, human resources, civil rights, and enterprise support for all programs, functions which are organized into the Business Center.

Rural Development Programs Performance

Rural Development programs provide financial support to individuals and enterprises in rural America.

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2019 than in FY 2018. There was an increase in the direct portfolio from $92.4 billion to $94.2 billion and an increase in the guaranteed portfolio from $117.4 billion to $118.7 billion.

Total Loan Portfolio as of September 30, 2019
FY's 2017 Through 2019
(Dollars in Billions)

	FY 2017	FY 2018	FY 2019
Direct Loans			
Water & Environmental	$12.6	$12.8	$13.1
Electric	41.7	42.6	44.0
Telecommunications	3.6	3.2	2.9
Business Programs	0.8	0.8	0.8
Single Family Housing	14.3	14.1	13.6
Multi-Family Housing	10.4	10.3	10.0
Community Facilities	7.5	8.6	9.8
Total Direct	90.9	92.4	94.2
Guaranteed Loans			
Water & Environmental	$0.1	$0.1	$0.1
Electric	0.2	0.2	0.2
Business Programs	4.8	5.5	5.8
Single/Multi-Family Housing	108.3	110.6	111.6
Community Facilities	1.0	1.0	1.0
Total Guaranteed	114.4	117.4	118.7
Total Loan Portfolio	**$205.3**	**$209.8**	**$212.9**

Rural Development Programs

Rural Development programs facilitate rural prosperity and economic development in rural America. Utilities programs provide capital for electric, telecommunications (including broadband, distance learning, and telemedicine) and water and environmental projects. These programs leverage federal funds with private capital to invest in rural infrastructure, technology and development of human resources.

Business and Cooperative programs provide capital for 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.

Housing and community facilities programs ensure rural families have access to safe, well-built, affordable homes and support an infrastructure needed to make rural communities attractive to small business owners, employees and families. Housing and community facilities programs provide loans, grants and rental assistance to rural 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.

The following chart shows key performance indicators, targets and results for Rural Development.

RURAL DEVELOPMENT PERFORMANCE SCORECARD FOR FY 2019

	FY 2019 Target	FY 2019 Actual	Results
Telecommunications Loans			
Number of borrowers'/grantees' subscribers receiving new and/or improved telecommunication services (thousands)	138.5	68.9	Unmet
Community Facilities (CF)			
Percent of customers who are provided access to new and/or improved essential community facilities-Health Facilities	6.8%	2.5%	Unmet
Electric Loans – Direct Federal Financing Bank (FFB)			
Number of borrowers' consumers receiving new and/or improved electric facilities (millions)	5.1	7.7	Met
Water and Environmental (WEP)			
Population receiving new or improved services from agency-funded water and wastewater facilities or projects (millions)	2.2	2.3	Met

Rural Development did not meet its target for Telecommunications loans. Funding for Telecommunications loan programs and Broadband loan programs were greatly reduced due to the significant amount of alternative grant funding available through USDA's new ReConnect Program. Demand for both programs is expected to increase in FY 2020 with the publication of updated program rules which will expand the funding opportunities available under both programs. Also, additional ReConnect funding is expected to be awarded in FY 2020.

The CF performance measure was not met this year due to the implementation of strengthened underwriting requirements, increased program funding allocation and a reduction of experienced program staff members. The CF Program implemented new policies curtailing acquisitions, which was a significant part of the prior years' CF obligations. The CF Program put a greater emphasis on the requirement that an applicant must demonstrate that they attempted to obtain credit elsewhere since Rural Development does not compete with local and regional commercial lenders. As a result of these factors, the number of applicants and funds obligated in FY 2019 were reduced.

Future Opportunities and Challenges

The USDA strategic plan for FY 2018-2022 includes the below specific goals applicable to Rural Development:

> Goal #1: Ensure USDA programs are delivered efficiently, effectively, with integrity and a focus on customer service.
>
> Goal # 4: Facilitate rural prosperity and economic development.

Rural Development's new brand identity and messaging ensures that our resources are used to deliver towards these goals. Rural Development has developed a message platform "When rural America thrives, all of America thrives", and a new tagline or slogan "Together, America Prospers" that will be central to all future messaging, marketing and communications efforts. The new branding launched this year.

Broadband e-Connectivity is fundamental for economic development, innovation, workforce readiness and an improved quality of life. It is also a tool that enables increased productivity for farms, factories, forests, mining, and small businesses. Unfortunately, many Americans, especially those living in rural and tribal communities, do not have access to reliable and affordable high-speed broadband service.

Providing broadband access to rural communities poses unique challenges not shared by urban and metropolitan area service providers. Remote areas with difficult terrain and less densely populated areas increase the costs of construction and provide fewer financial incentives to businesses to deploy service. On July 30th, in comments to Rural Development State Directors, Secretary Perdue said "There is a huge need for rural connectivity and rural broadband. It is the best way to bridge the urban-rural gap." Continued funding for agency infrastructure and broadband loan and grant 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.

Rural Development's ReConnect Program provides broadband opportunities to rural America's underserved communities. ReConnect offers grants, loan/grant combinations, and direct loans for rural areas that currently have insufficient broadband service. Projects will connect rural homes, businesses, farms, ranches and community facilities, such as first responders, health care sites and schools.

In addition to the ReConnect Program, Rural Development also provides loan and grant funding to support critical rural infrastructure across other major programs like community facilities, electric, telecom, and water and environmental programs. These programs allow Rural Development to collaborate with public and private partners to leverage financial resources and assist communities in rural economic development.

Partnerships make it possible for more complex transactions to get funded. As Rural Development strengthened its underwriting by having others review planned projects, staff is better able to manage credit risk. Partnering with other federal agencies to create innovative financial options to meet cost requirements for large publicly-supported projects will enhance the ability to provide needed infrastructure in rural communities.

President Trump signed the Agricultural Improvement Act of 2018, commonly known as the Farm Bill, into law on Dec. 20, 2018. It enhances flexibility of Rural Development programs and will foster collaboration, promote prosperity, and assist rural communities in creating a higher quality of life. The Farm Bill provisions enhance Rural Development programs by increasing access to capital, providing for technical assistance grants and establishing a new rural jobs accelerator program.

Rural Development is providing grants through the Rural Energy for America Program (REAP), a program that was reauthorized under the Farm Bill. Recipients can use REAP funding for energy audits and renewable energy systems such as biomass, geothermal, hydropower and solar. The grants also can be used to make energy efficiency improvements to heating, ventilation and cooling systems; insulation; and lighting and refrigeration.

Provisions of the Farm Bill enhance rural prosperity and economic development in rural America by establishing a Council on Rural Community Innovation and Economic Development as the successor to the Interagency Task Force on Agriculture and Rural Prosperity. This Council will coordinate federal efforts to maximize investments in rural areas and promote economic prosperity and will be rolled out at the Departmental level.

A new program, Local Agriculture Market Program, brings together the Value-Added Producer Grant (VAPG) and Agriculture Marketing Service's Farmers Market and Local Food Promotion Programs. The program will receive $50 million in mandatory funds annually and maintains that Rural Development will continue to administer the VAPG Program. The Farm Bill also transfers the administration of the Biobased Markets Program to Rural Development and reauthorizes Rural Development's renewable energy programs, providing over $125 million in mandatory funding.

In September 2019, USDA announced that the Department was making $150 million in grants available through the CF Program to help rural communities continue their recovery from the devastating effects of hurricanes, fires and other natural disasters. The $150 million is included in the Additional Supplemental Appropriations for Disaster Relief Act that President Trump signed into law on June 6, 2019. The grants may be used for relief in areas affected by Hurricanes Michael and Florence; wildfires in 2018; and other natural disasters where the Federal Emergency Management Agency (FEMA) has provided a notice declaring a Major Disaster Declaration.

Financial Highlights

Fiscal Year Ending September 30th (Dollars in Millions)	**FY 2019**	**FY 2018**
Total Assets	$112,042	$107,288
Total Liabilities	$106,372	$102,713
Total Net Position	$5,670	$4,575
Total Net Cost of Operations	$2,914	$3,263
Total Budgetary Resources	$40,401	$36,920

Rural Development had total assets of $112,042 million at the end of FY 2019, up from $107,288 million. A $3,312 million increase in Fund Balance with Treasury combined with a $1,442 million increase in the Loans Receivable and Related Foreclosed Property were the most significant lines in the asset category affecting the change. During FY 2019 the agency repaid less debt across all programs compared with previous years, resulting in higher cash balances. The increase in the portfolio was mostly attributed to the FFB Electric loans, which has been trending up over the last several years.

Total Liabilities of $106,372 million in FY 2019 increased from $102,713 million in FY 2018, an increase of $3,659 million, which is mostly attributed to a large increase in debt retained by Rural Development. Rural Development's debt is mostly driven by Treasury borrowings as a financing tool for post credit reform programs.

Total Net Position increased $1,095 million in FY 2019 compared to FY 2018. The change in the Net Position is caused by an increase in the Unexpended Appropriations and an overall decrease in the Net Cost of Operations.

Total Net Cost of Operations decreased $349 million from FY 2018. This change is attributed to a reversal of a previously recorded contingent liability. The reversal caused the overall costs to decrease for FY 2019 as compared to FY 2018.

Total Budgetary Resources increased by $3,481 million primarily due to lower amounts of debt repaid in FY 2019 compared to FY 2018. Additionally, an increase in prior year recoveries and cancellations of Electric Underwriter loans also contributed to the overall increase in Budgetary Resources.

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.

Due to the complex and diverse mission of Rural Development, risk management is a key challenge. The Rural Development Innovation Center supports leadership in making risk-informed decisions that improve the performance of Rural Development programs. The agency's Enterprise Risk Management (ERM) framework includes a risk taxonomy which provides a consistent structure for identifying, classifying, and addressing these risks in logical groups. Rural Development continues to build awareness and participation in ERM at all levels of the organization through webinars and outreach. This encourages staff to participate in identifying risk to the agency's mission.

Rural Development Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA, Section 803(a) of the Federal Financial Management Improvement Act (FFMIA), and in accordance with Office of Management and

Budget (OMB) Circular No. A-123, Management's Responsibility for ERM and Internal Control, for the period ended September 30, 2019. Based on the results of the evaluations, Rural Development provides reasonable assurance that the overall system of internal controls is operating effectively, except for the deficiencies discussed below.

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.

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.

In FY 2019, there were no material weaknesses, no new significant deficiencies, and no new control deficiencies identified during FY 2019. For FY 2018, one existing significant deficiency remains (1), and one significant deficiency has been downgraded to a control deficiency (2).

1. The FY 2018 Finance Office-Procurement Activity Management Control Review (MCR) found significant deficiencies in Rural Development's management and oversight of Single Family Housing (SFH) procurement processes that led to several unauthorized commitments related to SFH foreclosure activity. An independent review was completed, and no material weaknesses or significant deficiencies were identified. The corrective action plan (CAP) pertaining to program loan costs procedures has been developed for the FY 2018 Finance Office-Procurement Activity MCR.

2. The FY 2018 Information Technology Office-Procurement Activity MCR was previously reported with significant deficiencies in the oversight of the Comprehensive Loan Program (CLP) Initiative through the mismanagement of multiple contracts and invoices, in addition to several unauthorized commitments and inconsistencies in funding. As a result of the procurement MCR, an independent contractor performed an audit on the ability to trace funding and financial procurement activities. Invoicing was traced to funding and no viable observations or recommendations were identified pertaining to the availability of funds. Observation and recommendations were made to improve coding and tracking of funding streams. The CAP has been amended to include these resolutions for the control deficiencies pertaining to the coding.

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 2019, there were no new non-conformances and no new consolidated non-conformances identified. One existing significant deficiency has been corrected and closed for the FY 2009 Rural Development Financial Statement Audit No. 85401-17-FM.

OIG noted the RUS Legacy system was on antiquated software and needed to be retired. The RUS Legacy system has been converted to the modern, web based Commercial Loan Servicing System (CLSS) and the Plan of Action and Milestones (POAM) monitored the transfer of each program and its servicing functionality.

The POAM 21589 for FY 2009 Rural Development Financial Statement Audit No. 85401-17-FM was closed in May 2019.

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.

The current Rural Development 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. There are five major loan servicing systems currently in use by Rural Development that service all Rural Development programs, and one fund control system that manages all allotments, obligations, and disbursements; and currently functions as described below. Some of these systems are on a modernization roadmap, and their planned disposition is noted in their descriptions.

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.

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

Both PLAS and AMAS are more than 25 years old and are scheduled to begin modernization efforts in FY 2020 pending availability of resources.

Guaranteed Loan System (GLS) - The GLS system is used to support guaranteed loans for Rural Development and FLP programs. Additionally, the GLS system is used to support the applications related to some direct loans and grants for Rural Development BP and CF

Programs. The GLS system provides a front-end interface with Rural Development guaranteed lenders and underwriting systems.

CLSS - The CLSS system supports the Electric and Telecommunications direct loan and grant programs and some WEP, CF and BP. CLSS servicing functionality will eventually be built into the modern solution that will be developed to replace PLAS and AMAS, but its integration is later in the modernization roadmap.

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

Program Funds Control System (PFCS) - The fund control system used by Rural Development and FLP to manage funds control of allotments, obligations, and disbursements. All loan servicing systems interface with PFCS.

The future suite of financial management systems will integrate and streamline the current framework to reduce the number of systems and interfaces and modernize infrastructure.

Rural Development is in the process of analyzing and transforming how financial and accounting processes can properly communicate with the USDA core Financial Management Modernization Initiative (FMMI) financial system. This includes analysis of business requirements to utilize a Rural Development platform to transition loan servicing data to a new system, providing functionality for management control reporting, improved process flows, data warehouse extracts and Business Intelligence Reporting, and select interface staging.

Rural Development will continue to enhance efficiency, modernize 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, 2019. 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.

Compliance with Laws and Regulations. Rural Development reports no new non-compliances during FY 2019.

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.

Agencies were directed to establish a recovery audit program or provide justification that a recovery audit program would not be cost effective for each program that expends $1 million or more annually, per IPERA. For Rural Development, 31 programs received OMB waivers from conducting recovery audit due to cost effectiveness, three programs participated in the Department's recovery audit program referred to as the Supplier Credit Recovery Audit, and four programs developed internal recovery audit programs, which were approved by the Office of the Chief Financial Officer (OCFO). These internal recovery audit programs identify and recover improper payments. Activities include data mining-initiated reviews, limited scope reviews, special investigations, eligibility verification, agency wide audits, and internal control reviews. Management has reviewed all applicable programs and activities to identify any area that may be susceptible to significant improper payments and no deficiencies were identified.

Limitations on Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from the books and records of the entity in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2019 AND 2018 (In Millions)		
	2019	**2018**
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 22,104	$ 18,793
Accounts Receivable, Net (Note 5)	0	0
Other (Note 8)	0	0
Total Intragovernmental	22,104	18,793
Cash and Other Monetary Assets (Note 4)	46	46
Loans Receivable and Related Foreclosed Property, Net (Note 6)	89,814	88,372
General Property, Plant and Equipment, Net (Note 7)	41	40
Other (Note 8)	37	37
Total Assets	**112,042**	**107,288**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	0	0
Debt (Note 10)	97,620	93,353
Resources Payable to Treasury	6,945	7,403
Downward Reestimates Payable to Treasury General Fund	1,282	951
Other (Note 11)	17	17
Total Intragovernmental	105,864	101,724
Accounts Payable	39	26
Loan Guarantee Liability (Note 6)	210	282
Federal Employee and Veteran Benefits (Note 9)	31	36
Other (Note 11)	228	645
Total Liabilities	**106,372**	**102,713**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	5,743	5,126
Cumulative Results of Operations	(73)	(551)
Total Net Position	**5,670**	**4,575**
Total Liabilities and Net Position	**$ 112,042**	**$ 107,288**

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, 2019 AND 2018
(In Millions)

	2019	**2018**
Gross Costs (Note 13)		
Borrowing Interest Expense	$ 3,301	$ 3,459
Grants	1,981	1,955
Loan Cost Subsidies	204	(94)
Other	1,118	1,786
Total Gross Costs	**6,604**	**7,106**
Less: Earned Revenue (Note 13)	3,690	3,843
Net Cost of Operations	**$ 2,914**	**$ 3,263**

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, 2019 AND 2018
(In Millions)

	2019	2018
Unexpended Appropriations:		
Beginning Balances	$ 5,126	$ 3,521
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	$ 5,126	$ 3,521
Budgetary Financing Sources:		
Appropriations Received	5,928	5,869
Appropriations Transferred In/Out	(2)	(2)
Other Adjustments	7	(41)
Appropriations Used	(5,316)	(4,221)
Total Budgetary Financing Sources	617	1,605
Total Unexpended Appropriations	**$ 5,743**	**$ 5,126**
Cumulative Results of Operations:		
Beginning Balances	$ (551)	$ 34
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	$ (551)	$ 34
Budgetary Financing Sources:		
Other Adjustments	(3)	(4)
Appropriations Used	5,316	4,221
Nonexchange Revenue	0	0
Transfers-In/Out Without Reimbursement	129	108
Other Financing Sources (Nonexchange):		
Transfers-In/Out Without Reimbursement	0	0
Imputed Financing (Note 14)	133	160
Other	(2,183)	(1,807)
Total Financing Sources	**3,392**	**2,678**
Net Cost of Operations	(2,914)	(3,263)
Net Change	478	(585)
Cumulative Results of Operations	**$ (73)**	$ **(551)**
Net Position	**$ 5,670**	**$ 4,575**

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, 2019 AND 2018 (In Millions)				
	2019		2018	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 9,295	$ 4,979	$ 7,808	$ 7,617
Recoveries of Prior Year Unpaid Obligations	151	1,773	307	667
Other Changes in Unobligated Balance	(248)	(2,340)	(261)	(5,107)
Unobligated Balance from Prior Year Budget Authority, Net	9,198	4,412	7,854	3,177
Appropriations	6,005	84	5,957	0
Borrowing Authority (Notes 15 and 16)	0	10,913	0	13,670
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,110	8,679	2,595	3,667
Total Budgetary Resources	**$ 16,313**	**$ 24,088**	**$ 16,406**	**$ 20,514**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	$ 8,113	$ 15,091	$ 7,111	$ 15,535
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	4,025	8,534	3,210	4,497
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	4,099	463	5,985	482
Unexpired Unobligated Balance, End of Year	8,124	8,997	9,195	4,979
Expired Unobligated Balance, End of Year	76	0	100	0
Total Unobligated Balance, End of Year	8,200	8,997	9,295	4,979
Total Budgetary Resources	**$ 16,313**	**$ 24,088**	**$ 16,406**	**$ 20,514**
Outlays, Net				
Outlays, Net (total)	5,926	869	3,140	3,116
Distributed Offsetting Receipts	(4)	(1,756)	(4)	(1,684)
Agency Outlays, Net	**$ 5,922**	**$ (887)**	**$ 3,136**	**$ 1,432**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

RURAL DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2019 AND 2018 (In Millions)

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

The amounts in the FY 2018 column of the financial statements have been reclassified due to evolving changes in the OMB Circular A-136, Financial Reporting Requirements guidance. This reclassification will facilitate a meaningful comparison between FY 2019 and FY 2018. Footnotes have also been reclassified and additional information has been added to the applicable changes in guidance or presentation preferences.

Pursuant to SFFAS 56, *Classified Activities*, accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

In FY 2019 Rural Development made a presentation change for the Allowance for Loss on Interest Receivable. Rural Development is reflecting the Allowance for Loss on Interest Receivable under the Allowance for Subsidy account based on Federal Credit Reform Act of 1990.

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. Rural Development improves the economy and quality of life in rural America by providing funding for rural housing programs, rural utilities programs, and rural business programs within the USDA. Rural Development's mission offers loans, grants, and loan guarantees to support economic development and essential services such as housing, health care, first responder services and equipment, water, and electric and communications infrastructure.

NOTE 1: Continued
Rural Development List of Major Programs

Rural Housing and Community Facilities Programs

- Single Family Housing Direct Loans & Loan Guarantees (including Mutual Self-Help Loans)
- Single Family Housing Repair Loans & Grants
- Mutual Self-Help Housing Technical Assistance Grants
- Rural Rental Housing Direct Loans & Loan Guarantees
- Housing Preservation Grants
- Farm Labor Housing Loans & Grants
- Community Facilities Direct Loans, Loan Guarantees & Grants
- Rural Community Development Initiative Grants

Rural Business and Cooperative Programs

- Business and Industry Loan Guarantees
- Rural Business Development Grants
- Rural Business Investment Program
- Intermediary Relending Program Loans
- Rural Microentrepreneur Assistance Program
- Rural Economic Development Loans & Grants
- Rural Cooperative Development Grants
- Socially Disadvantaged Groups Grants
- Delta Health Care Services Grants
- Value Added Producer Grants
- Rural Energy for America Program Loan Guarantees & Grants
- Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program Loan Guarantees
- Repowering Assistance Program
- Advanced Biofuel Payment Program
- Strategic Economic and Community Development

Rural Utilities Programs

- Water and Waste Disposal Direct Loans, Loan Guarantees & Grants
- Solid Waste Management Grants
- Water and Waste Disposal Technical Assistance & Training Grants
- Circuit Rider Program
- Rural Broadband Access Direct Loans and Loan Guarantees
- Electric and Telecommunications Infrastructure Direct Loans & Loan Guarantees
- Energy Efficiency & Conservation Loans
- Rural Energy Savings Program
- Special Evaluation Assistance for Rural Communities and Households
- Distance Learning and Telemedicine Grants
- Community Connect and ReConnect Grants and Loans
- High Energy Cost Grants
- Distributed Generation Energy Project Financing
- Energy Resource Conservation
- Emergency Community Water Assistance Grants

NOTE 1: Continued

Basis of Accounting and Presentation

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 cash, accrual, and budgetary accounting basis while preparing the financial statements. The cash accounting basis recognizes Pre-Credit Reform and Credit Reform non-federal 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 of all financial statements with the exception of the Statement of Budgetary Resources, which is presented on a combined basis.

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 **(Note 23)**.

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. Rural Development's largest estimates are a result of the Federal Credit Reform Act requirements. Actual results may differ from those estimates.

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 Treasury and borrower loan repayments.

NOTE 1: Continued

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, rent, communication, 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.

Fund Balance with Treasury

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

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.

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 non-performing (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 non-performing loan is then recognized only to the extent of the collections received. Rural Development reclassifies non-performing 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.

NOTE 1: Continued

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 User 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 cost 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 thousand and internal use software is $100 thousand. See **Note 7** for further information.

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.

Borrowings and 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.

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.

Resources Payable to Treasury

Rural Development's Resources Payable to Treasury represent the Pre-Credit Reform fund's assets in excess of the fund's liabilities. Rural Development returns funds to Treasury after liquidating all the liabilities of these Pre-Credit Reform funds.

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 necessary, to fund future net cash outflows, the applicable financing account must transfer the excess subsidy, with interest, to a designated Treasury GFR Account. As this transfer does not occur until the following year, these excess funds are included in the Fund Balance with Treasury and are considered non-entity assets.

NOTE 1: Continued

Contingencies

Rural Development's 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)**.

Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts, which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, Rural Development records the obligated amount as an undelivered order **(Note 20)**. An expenditure or an obligation cancellation reduces an undelivered order. Rural Development treats appropriated funds, which are not obligated, as unobligated amounts. At the end of the fiscal year, certain multi-year appropriations, which have unobligated balances, remain available for obligation in future periods. Rural Development returns unobligated appropriations to Treasury when their period of availability cancels.

Intragovernmental Financial Activities

Rural Development's 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 was a separate and independent entity.

USDA provides mission areas with an allocation of departmental non-reimbursed 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.

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.

	FY 2019	FY 2018
Intragovernmental		
Fund Balance with Treasury	$ 0	$ 0
Total Intragovernmental	**0**	**0**
Cash and Other Monetary Assets	**46**	**46**
Total Non-Entity Assets	**46**	**46**
Total Entity Assets	111,996	107,242
Total Assets	**$ 112,042**	**$ 107,288**

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 2019) 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 2019 and 2018, there were approximately $99 million and $140 million in expired funds, respectively.

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

	FY 2019	FY 2018
Status of Fund Balance with Treasury (FBWT)		
Unobligated Balance:		
Available	$ 12,559	$ 7,707
Unavailable	4,638	6,567
Obligated Balance Not Yet Disbursed	29,551	29,855
Borrowing Authority Not Yet Converted to Fund Balance	(24,621)	(25,304)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(27)	(33)
Temporary Reduction of New Budget Authority	4	2
Non-Budgetary Fund Balance with Treasury	0	(1)
Total	**$ 22,104**	**$ 18,793**

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 Bank of America as of September 30, 2019.

	FY 2019	FY 2018
Cash and Other Monetary Assets		
Cash	$ 46	$ 46
Foreign Currency	0	0
Other Monetary Assets	0	0
Total Cash and Other Monetary Assets	**$ 46**	**$ 46**

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

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2019			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	20	20	0
Total Accounts Receivable	**$ 20**	**$ 20**	**$ 0**
FY 2018			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	16	16	0
Total Accounts Receivable	**$ 16**	**$ 16**	**$ 0**

Criminal Restitution

The outstanding balance for criminal restitution was $3 million in FY 2019 as compared to $1 million in FY 2018.

NOTE 6: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

Discussion of Credit Programs and Characteristics

Rural Development offers both direct and guaranteed loans administered through the Rural Housing Service, Rural Utilities Service and Rural Business-Cooperative Service. Each agency has unique missions to bring prosperity and opportunity to rural areas. The direct program has $89,814 million in outstanding credit program net receivables, and the guaranteed program has an outstanding guarantee of $118,648 million with a liability of $210 million, as of September 30, 2019.

Each year, Rural Development programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing, business, 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 non-profit 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 programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities. They also help finance new or improved housing for moderate, low, and very low-income families each year. Other programs help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

Rural Business programs 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. They also provide technical assistance to rural businesses and cooperatives, conduct research into rural economic issues, and provide 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 water resources.

NOTE 6: Continued

Loan Program Characteristics

PROGRAM CHARACTERISTICS – DIRECT		
MAJOR PROGRAMS	**OBJECTIVE**	**TERMS/CONDITIONS**
Single Family Housing Loans (including Mutual Self-Help Loans)	Safe, well-built, affordable homes for very-low and low-income rural Americans.	Up to 100% of market value or cost. Loan term of 33/38 years. Applicant may be eligible for payment assistance (subsidy) on the loan.
Single Family Housing Repair Loans	To help very-low-income applicants remove health and safety hazards or repair their homes.	Loans up to $20,000 up to 20 years at 1%.
Rural Rental (Multi-Family) Housing Loans	Safe, well-built, affordable rental housing for very-low-income individuals and families.	Up to 100% of total development cost (non-profits); 97% (for-profit); 95% (for-profits with Low-Income Housing Tax Credits). 30-year term with up to 50-year amortization.
Community Facility Loans	Improve, develop, or finance essential community facilities for rural communities.	Up to 100% of Market value. Term is for useful life of the facility or equipment, the State statue, or 40 years.
Farm Labor Housing Loans	Safe, well-built affordable rental housing for farmworkers.	Up to 102% of total development cost. Up to 33 years to repay at 1% interest.
Rural Economic Development Loans	Finance economic development and job creation in rural areas.	Intermediary makes loans to for-profit or non-profit businesses and public bodies. Loans are 0% for 10 years.
Intermediary Relending Program Loans	Establish revolving funds for business facilities and community development projects.	The intermediary makes loans to business from its revolving loan fund on terms consistent with security offered. Intermediary pays 1% for 30 years.
Rural Microentrepreneur Assistance Program	Establish revolving funds to target assistance to small rural enterprises.	Maximum term is 20 years with a 2-year payment deferral.
Water and Environmental Loan	Provide infrastructure for rural areas.	Repayment period is a maximum of 40 years.
Electric Loans including Rural Energy Savings Program	Helps rural communities obtain affordable, high quality electric. Helps rural families and small businesses achieve cost savings through loans to qualified consumers to implement durable cost – effective energy efficiency measures.	Up to 20 years at 0% interest, up to 3% interest for relending to qualified end-users/consumers for up to 10 years; up to 4% of the loan total may be used for startup costs.
Telecommunication and Broadband Loans	Financing for construction, maintenance, improvement, and expansion of telephone service and broadband in rural areas.	Cost of money loans at fixed U.S. Treasury rate. Hardship Loans may be available at fixed interest rate for up to 20 years.

NOTE 6: Continued

PROGRAM CHARACTERISTICS – GUARANTEED		
MAJOR PROGRAMS	**OBJECTIVE**	**TERMS/CONDITIONS**
Single Family Housing Loan Guarantees	To assist low-to moderate-income applicants/household buy their homes by guaranteeing loans made by private lenders.	30-year fixed. The interest rate is negotiated between lender and borrower. Loans up to 100% of market value plus the amount of the up-front guarantee fee being financed.
Rural Rental (Multi-Family) Housing Loan Guarantees	Guarantees on loans to build or preserve affordable rental housing for very-low to moderate income tenants	At least 25-year term with fixed interest rate. Loan guarantees on up to 90% of the principal.
Community Facilities Loan Guarantees	Improve, develop, or finance essential community facilities for rural communities.	Up to 100% of market value. Term is for useful life of the facility or equipment, the State statue, or 40 years. Maximum grant 75% of project cost.
Business and Industry Loan Guarantees	Create jobs/stimulate rural economics by providing financial backing for rural business.	Lender and borrower negotiate terms. Up to 30 years for real estate, 15 years for machinery and equipment, and 7 years for working capital.
Rural Energy for America Program (REAP) Loan Guarantees	Provide assistance for energy efficiency improvements or to purchase a renewable energy system for operations.	Loan guarantees up to 75% of project cost not to exceed $25 million.
Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program Loan Guarantees	Loan guarantees to develop and construct commercial–scale biorefineries or retrofit facilities using eligible technology for the development of advanced biofuels.	90% (maximum) guarantee on loans up to $125 million; 80% (maximum) guarantee on loans less than $150 million; 70% (maximum) guarantee on loans of $150 million but less than $200 million; 60% (maximum) guarantee on loans of $200 million up to $250 million.
Water and Environmental Loan Guarantees	Provide infrastructure for rural areas.	Eligible lenders obtain up to 90% guarantee on loans they make and service.
Electric and Telecommunication Loan Guarantees	Help rural communities obtain affordable, high-quality electric and telecommunications services.	Maximum 35-year term 100% guaranteed

NOTE 6: Continued

Other Information Related to Credit Programs

Foreclosed Property and 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 2019 and 2018, Rural Housing Program properties consist primarily of 2,398 and 1,238 rural single family dwellings, respectively. The average holding period for single family housing properties in inventory was 15 months for FY 2019 and 16 months for FY 2018. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2019 and 2018 was 17,207 and 22,789, respectively. Rural Development also 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 $14,458 million and $14,954 million of the Rural Housing borrowers' unpaid loan principal, as of September 30, 2019 and 2018, respectively, received interest credit (payment assistance). If those loans receiving interest credit had interest accrued at the full-unreduced rate, interest income would have been approximately $682 million and $709 million higher for FY's 2019 and 2018, respectively.

Also, at the end of FY's 2019 and 2018, the Rural Development housing portfolio contained approximately 51,684 and 55,938 restructured loans, respectively. The outstanding unpaid principal balance was $2,711 million in FY 2019 and $2,869 million in FY 2018.

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, and continued through FY 2019. In this program, Rural Development provided restructured loans and grants to development owners to revitalize multi-family housing development projects in order to extend their affordable use without displacing tenants due to increased rent.

During FY 2019, the Rural Utilities Program loans experienced a significant increase in loan modifications. The total modifications amount for FY 2019 was over $800 million compared to FY 2018, refer to **TABLE 3** on page 19 as reference for the amounts. The Cushion of Credit (CoC) modifications were a direct result of

NOTE 6: Continued

the enactment of the FY 2018 Agriculture Improvement Act. The language in the act provided the borrowers the opportunity to prepay outstanding loans, without a penalty, using the CoC balances. Additionally, the Federal Financing Bank Direct Electric Loan Program modifications continued with the refinancing options that were enacted in the FY 2018 Consolidated Appropriations Act as part of a two-year pilot program.

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 all loans obligated post-1991 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 2019 and 2018, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY's 2019 and 2018, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. Defaults, fees, and other collections are considered significant assumptions within the guaranteed housing and business and industry program estimates.

Based on a sensitivity analysis conducted for each program, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components of the subsidy formulation and reestimate rates of Rural Development direct programs. Rural Development uses the government-wide interest rate projections provided by OMB within 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 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.

Valuation Methodology for 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. The Net Realizable Value methodology uses the average rate of the last five years of write-offs to determine the value of the remaining interest and principal portfolio. Direct loans and loan guarantees made post-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.

NOTE 6: Continued

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.

The net present value of Direct Loan and Loan Guarantees, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

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 2019 and FY 2018. Loans receivable and related foreclosed property, net balances at the end of FY 2019 was $89,814 million compared to $88,372 million at the end of FY 2018. Defaulted guaranteed loans were $174 million in FY 2019 as compared to $237 million in FY 2018.

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 2019	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [1]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing	$ 5,934	$ 689	$ 20	$ (610)	$ 6,033
Community Facility	10	0	0	0	10
Electric	2,241	3	0	(1,738)	506
Telecommunication	63	0	0	0	63
Water and Environmental	239	2	0	0	241
Intermediary Relending	4	0	0	0	4
Pre-1992 Total	**8,491**	**694**	**20**	**(2,348)**	**6,857**
Obligated Post-1991					
Housing	17,560	414	139	(2,158)	15,955
Community Facility	9,755	76	0	(321)	9,510
Electric	47,032	73	0	(577)	46,528
Telecommunication	3,183	1	0	(2)	3,182
Water and Environmental	12,870	89	0	(300)	12,659
Intermediary Relending	355	2	0	(76)	281
Business and Industry	44	0	0	(5)	39
Economic Development	200	0	0	(15)	185
Post-1991 Total	**90,999**	**655**	**139**	**(3,454)**	**88,339**
Cushion of Credit Advance Payments	(5,556)	0	0	0	(5,556)
Total Direct Loans Receivable	**93,934**	**1,349**	**159**	**(5,802)**	**89,640**
Defaulted Guaranteed Loans					
Post-1991					
Housing	110	0	0	(81)	29
Community Facility	6	0	0	0	6
Business and Industry	187	0	0	(48)	139
Total Defaulted Guaranteed Loans	**$ 303**	**$ 0**	**$ 0**	**$ (129)**	**$ 174**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 89,814**

[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 2018	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance[2]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing	$ 6,375	$ 66	$ 15	$ (25)	$ 6,431
Community Facility	13	0	0	0	13
Electric	2,284	8	0	(1,593)	699
Telecommunication	83	0	0	0	83
Water and Environmental	274	3	0	(1)	276
Intermediary Relending	6	0	0	0	6
Pre-1992 Total	**9,035**	**77**	**15**	**(1,619)**	**7,508**
Obligated Post-1991					
Housing	17,930	126	75	(2,085)	16,046
Community Facility	8,563	65	0	(169)	8,459
Electric	47,037	296	0	(560)	46,773
Telecommunication	3,510	5	0	121	3,636
Water and Environmental	12,506	95	0	(264)	12,337
Intermediary Relending	362	2	0	(85)	279
Business and Industry	43	0	0	(1)	42
Economic Development	183	0	0	(13)	170
Post-1991 Total	**90,134**	**589**	**75**	**(3,056)**	**87,742**
Cushion of Credit Advance Payments	(7,115)	0	0	0	(7,115)
Total Direct Loans Receivable	**92,054**	**666**	**90**	**(4,675)**	**88,135**
Defaulted Guaranteed Loans					
Post-1991					
Housing	88	1	0	(57)	32
Community Facility	5	0	0	0	5
Business and Industry	260	3	0	(63)	200
Total Defaulted Guaranteed Loans	**$ 353**	**$ 4**	**$ 0**	**$ (120)**	**$ 237**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 88,372**

[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 2019 to FY 2018. The subsidy cost allowance in FY 2019 was $3,583 million compared to $3,176 million in FY 2018, an increase of $407 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2019**	**FY 2018**
Beginning Balance of the Subsidy Cost Allowance	$ 3,176	$ 3,406
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	(195)	(205)
Default costs (net of recoveries)	105	102
Fees and other collections	(13)	(10)
Other subsidy costs	(53)	(43)
Total of the above subsidy expense components	(156)	(156)
Adjustments:		
Loan modifications	898	0
Fees received	86	74
Loans written off	(612)	(376)
Subsidy allowance amortization	477	(96)
Other	122	86
Ending balance of the subsidy cost allowance before reestimates	3,991	2,938
Add or subtract reestimates by component:		
Interest rate reestimates	(57)	608
Technical/default reestimates	(351)	(370)
Total of the above reestimate components	(408)	238
Ending Balance of the Subsidy Cost Allowance	**$ 3,583**	**$ 3,176**

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 2019 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 2019 and 2018 by program. Total direct loan subsidy expense in FY 2019 was $334 million compared to $82 million in FY 2018, an increase of $252 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				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate	Technical/ Default	Total	GRAND TOTAL
FY 2019										
Housing	$ 36	$ 46	$ 0	$ 3	$ 85	$ 8	$ 25	$ 186	$ 211	$ **304**
Community Facility	(145)	52	0	5	(88)	0	0	217	217	**129**
Electric	(144)	5	(13)	(32)	(184)	863	(108)	(864)	(972)	**(293)**
Telecommunications	0	1	0	(1)	0	27	20	69	89	**116**
Water & Environmental	45	1	0	(27)	19	0	8	42	50	**69**
Intermediary Relending	5	0	0	(1)	4	0	(1)	(4)	(5)	**(1)**
Business and Industry	1	0	0	0	1	0	0	4	4	**5**
Economic Development	7	0	0	0	7	0	(1)	(1)	(2)	**5**
Total Subsidy Expense, Direct	**$ (195)**	**$ 105**	**$ (13)**	**$ (53)**	**$ (156)**	**$ 898**	**$ (57)**	**$ (351)**	**$ (408)**	**$ 334**
FY 2018										
Housing	$ 23	$ 50	$ 0	$ 9	$ 82	$ 0	$ 16	$ 30	$ 46	$ **128**
Community Facility	(155)	43	0	5	(107)	0	43	91	134	**27**
Electric	(126)	4	(10)	(30)	(162)	0	538	(489)	49	**(113)**
Telecommunications	0	4	0	(4)	0	0	(36)	(26)	(62)	**(62)**
Water & Environmental	43	1	0	(23)	21	0	50	23	73	**94**
Intermediary Relending	5	0	0	0	5	0	(2)	1	(1)	**4**
Business and Industry	1	0	0	0	1	0	0	0	0	**1**
Economic Development	4	0	0	0	4	0	(1)	0	(1)	**3**
Total Subsidy Expense, Direct	**$ (205)**	**$ 102**	**$ (10)**	**$ (43)**	**$ (156)**	**$ 0**	**$ 608**	**$ (370)**	**$ 238**	**$ 82**

NOTE 6: Continued

Direct Loans Disbursed
Volume distribution between programs is shown in **Table 4.** Direct loans disbursed in FY 2019 was $7,869 million compared to $6,830 million in FY 2018, an increase of $1,039 million.

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

	FY 2019	FY 2018	FY 2019 Over/Under FY 2018
Housing	$ 1,151	$ 1,185	$ (34)
Community Facility	1,530	1,354	176
Electric	4,218	3,236	982
Telecommunications	114	232	(118)
Water and Environmental	780	766	14
Intermediary Relending	18	19	(1)
Business and Industry	5	6	(1)
Economic Development	53	32	21
Total Direct Loans Disbursed	**$ 7,869**	**$ 6,830**	**$ 1,039**

NOTE 6: Continued

Subsidy Rates for Direct Loans

Subsidy rates are used to compute each year's subsidy expense. **Table 5** has the direct loan subsidy rates for FY 2019 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 2019 cohort. 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 2019	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	2.11	4.60	0.00	0.06	6.77
Section 504 Housing Repair	15.27	-0.04	0.00	-3.02	12.21
Single Family Housing Credit Sales	-7.63	2.25	0.00	2.96	-2.42
Section 514 Farm Labor Housing	25.16	0.23	0.00	-0.47	24.92
Section 515 Multi-Family Housing	24.13	0.75	0.00	-1.17	23.71
Section 523 Self-Help Housing Land Development	3.87	4.68	0.00	0.06	8.61
Section 524 Site Development	2.84	0.00	0.00	0.67	3.51
Multi-Family Housing Credit Sales			Not Funded		
Multi-Family Housing Relending	27.68	0.00	0.00	-0.01	27.67
Multi-Family Housing Revitalization Seconds	50.12	0.51	0.00	-0.05	50.58
Multi-Family Revitalization Zero			Not Funded		
Community Facilities	-14.65	4.25	0.00	2.79	-7.61
Community Facilities Relending			Not Funded		
Distance Learning and Telemedicine			Not Funded		
Broadband Treasury Rate	0.13	19.28	0.00	0.12	19.53
Water and Environmental	1.80	0.11	0.00	-2.18	-0.27
Electric Hardship			Not Funded		
FFB Electric	-4.00	0.01	0.00	-0.39	-4.38
Telephone Hardship			Not Funded		
Treasury Telecommunications	0.14	0.36	0.00	-0.02	0.48
FFB Telecommunications	-0.61	0.19	0.00	-2.29	-2.71
Intermediary Relending Program	21.64	1.77	0.00	-1.40	22.01
Rural Economic Development	13.65	0.01	0.00	-0.31	13.35
Rural Microenterprise	6.85	2.67	0.00	0.00	9.52
Electric Underwriting	0.00	1.51	-1.90	0.00	-0.39
Reconnect Direct Loans	7.64	23.95	0.00	-0.45	31.14
Reconnect Grant Assisted Loans	0.00	23.95	0.00	0.10	24.05
Rural Energy Savings Program	12.95	1.48	0.00	-0.40	14.03

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 PROGRAM

Direct 502 Single Family Housing

The Direct Single-Family Housing program had an overall upward reestimate of $211 million. The majority of the upward reestimate is attributable to the Section 502 program cohorts 2000 through 2010 which had an upward reestimate of $205 million. The upward reestimates reflect the impact of continuing elevated residual defaults of loans for properties acquired prior to the 2008 recession. Additionally, the Agency is borrowing at a lower rate than it is lending and the decrease in projected interest income contributes to the upward impact to the reestimate.

Direct Community Facility

The Direct Community Facility program had an overall upward reestimate of $217 million. Cohorts 2016 through 2018 had an upward reestimate of $124 million due primarily to borrowing rates from Treasury rising higher than initially budgeted. Treasury rates on older cohorts do not change as Treasury sets fixed borrowing rates on each cohort after 90% of the loans have been disbursed. Additionally, the increase in the principal write-off curve further increased the total reestimate due to the increase in projected write-offs.

RURAL UTILITIES PROGRAMS

Direct Electric Programs

The Electric program had an overall downward reestimates of ($972) million. The Direct Federal Financing Bank (FFB) Electric Program had an overall downward reestimate of ($899) million which is comprised primarily of a ($936) million downward reestimate in the FFB program and a $37 million upward reestimate in the FFB Underwriter program. The main factor of the downward reestimate increase in the Direct FFB program was the modification realized in FY 2019 due to the implementation of the Agriculture Improvement Act of 2018. The language in the bill allowed the borrowers to prepay outstanding debt using Cushion of Credit balances. The positive modification cash flows increased cash balances resulting in a downward impact as the Agency had to borrow less from Treasury to cover the cost of the subsidy.

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 2019 increased compared to the FY 2018 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2019 and FY 2018, there were $133,284 million and $131,840 million in outstanding principal (face value) and $118,648 million and $117,373 million in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2019		
Housing	$ 124,066	$ 111,622
Community Facility	1,168	1,040
Electric	154	154
Water and Environmental	77	69
Business and Industry	7,819	5,763
Total Guarantees Outstanding	**$ 133,284**	**$ 118,648**
FY 2018		
Housing	$ 122,966	$ 110,632
Community Facility	1,141	1,017
Electric	161	161
Water and Environmental	91	80
Business and Industry	7,481	5,483
Total Guarantees Outstanding	**$ 131,840**	**$ 117,373**

NOTE 6: Continued

Liability for Loan Guarantees

Liability for loan guarantees consists 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 2019, the total liabilities decreased by $72 million compared to FY 2018.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value
FY 2019	
Liability for Loan Guarantees	
Housing	$ (232)
Community Facility	53
Electric	0
Water and Environmental	1
Business and Industry	388
Total Liabilities for Loan Guarantees	**$ 210**
FY 2018	
Liability for Loan Guarantees	
Housing	$ (212)
Community Facility	51
Electric	0
Water and Environmental	1
Business and Industry	442
Total Liabilities for Loan Guarantees	**$ 282**

NOTE 6: Continued

The Agency continued to process claim payments to lenders in FY 2019 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 2019**	**FY 2018**
Beginning Balance of the Loan Guarantee Liability	$ 282	$ 574
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	0	0
Default costs (net of recoveries)	595	819
Fees and other collections	(660)	(820)
Other subsidy costs	0	1
Total of the above subsidy expense components	(65)	0
Adjustments:		
Loan guarantee modifications	0	0
Fees received	593	603
Interest supplements paid	(8)	(8)
Claim payments to lenders	(496)	(633)
Interest accumulation on the liability balance	(12)	6
Loans acquired	92	63
Other	(172)	(147)
Ending balance of the loan guarantee before reestimates	214	458
Add or subtract reestimates by component:		
Interest rate reestimates	(40)	(82)
Technical/default reestimates	36	(94)
Total of the above reestimate components	(4)	(176)
Ending Balance of the Loan Guarantee Liability (Post-1991)	**$ 210**	**$ 282**

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 2019 and FY 2018 by loan program. Total guaranteed loan subsidy expense in FY 2019 was ($69) million compared to ($176) million in FY 2018, a decrease of ($107) million.

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				
	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modification	Interest Rate	Technical	Total	GRAND TOTAL
FY 2019										
Housing	$ 0	$ 502	$ (612)	$ 0	$ (110)	$ 0	$ (39)	$ 90	$ 51	$ (59)
Community Facility	0	6	(1)	0	5	0	0	(5)	(5)	0
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	87	(47)	0	40	0	(1)	(49)	(50)	(10)
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 595**	**$ (660)**	**$ 0**	**$ (65)**	**$ 0**	**$ (40)**	**$ 36**	**$ (4)**	**$ (69)**
FY 2018										
Housing	$ 0	$ 622	$ (753)	$ 0	$ (131)	$ 0	$ (88)	$ (24)	$ (112)	$ **(243)**
Community Facility	0	5	(1)	0	4	0	0	5	5	**9**
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	192	(66)	1	127	0	6	(75)	(69)	**58**
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 819**	**$ (820)**	**$ 1**	**$ 0**	**$ 0**	**$ (82)**	**$ (94)**	**$ (176)**	**$ (176)**

NOTE 6: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value decreased to $15,985 million in FY 2019 from $19,647 million in FY 2018. The housing loan program experienced the largest decrease.

TABLE 8: GUARANTEED LOANS DISBURSED (POST-1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2019		
Housing	$ 14,528	$ 13,075
Community Facility	155	137
Water and Environmental	9	8
Business and Industry	1,293	990
Total Guaranteed Loans Disbursed	**$ 15,985**	**$ 14,210**
FY 2018		
Housing	$ 17,527	$ 15,774
Community Facility	105	93
Water and Environmental	2	1
Business and Industry	2,013	1,553
Total Guaranteed Loans Disbursed	**$ 19,647**	**$ 17,421**

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 2019 cohort 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 2019	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	3.44	-4.15	0.00	-0.71
Section 538 Multi-Family Housing	3.51	-8.30	0.00	-4.79
Community Facilities	3.77	-0.88	0.00	2.89
Business and Industry	6.34	-4.02	0.00	2.32
Water and Environmental	1.25	-0.87	0.00	0.38
Renewable Energy	5.93	-1.47	0.00	4.46
Biorefinery (Section 9003 Loan Guarantees)	27.74	-6.09	0.11	21.76

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 Program

The Guaranteed Single-Family Housing Program had an overall upward reestimate of $51 million. The most significant change was attributed to an upward reestimate of $68 million in the Section 502 Direct Loan program, which assists low income applicants obtain decent, safe and sanitary housing in eligible rural areas. The Section 502 Direct Loan program increase in reestimates is the result of an upward reestimate of $198 million and a downward reestimate of ($130) million. The change in the upward reestimate for the 502 Section Direct Loan program is attributed to cohorts 2011 through 2018, along with an offsetting downward reestimate for cohort 2019. The increase in the upward reestimate for cohorts 2011 through 2018 is attributed to an increase in forecasted loss settlements, a decrease in forecasted recoveries, and a decrease in forecasted annual fee inflows. These changes in the loss settlements, recoveries, and annual fee cash flows are due to decreases in the forecasted 30-year mortgage rates and forecasted Housing Price index (HPI). The downward reestimate for the 2019 cohort is due to an increase in projected annual fees as compared to original subsidy estimate, resulting in higher future cash flows and the reduction of the subsidy cost.

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 1** for further information on General Property, Plant and Equipment, Net.

CLASSES	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life[3]	Method of Depreciation[4]	Capitalization Threshold
FY 2019						
Personal Property						
Equipment	$ 5	$ 3	$ 2	5-20	SL	$ 25,000
Internal Use Software	207	172	35	5-8	SL	$ 100,000
Internal Use Software in Development	4	0	4		SL	$ 100,000
Total	**$ 216**	**$ 175**	**$ 41**			
FY 2018						
Personal Property						
Equipment	$ 3	$ 2	$ 1	5-20	SL	$ 25,000
Internal Use Software	203	167	36	5-8	SL	$ 100,000
Internal Use Software in Development	3	0	3		SL	$ 100,000
Total	**$ 209**	**$ 169**	**$ 40**			

NOTE 8: OTHER ASSETS

	FY 2019	FY 2018
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 2019	FY 2018
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 5	$ 6
Total Intragovernmental	**5**	**6**
With the Public		
Federal Employee and Veteran Benefits	31	36
Unfunded Annual Leave	35	32
Contingent Liability	69	469
Other Liability	71	70
Total With the Public	**206**	**607**
Total Liabilities Not Covered by Budgetary Resources[6]	**211**	**613**
Total Liabilities Covered by Budgetary Resources	106,177	102,112
Total Liabilities Not Requiring Budgetary Resources[7]	(16)	(12)
Total Liabilities	**$ 106,372**	**$ 102,713**

[6] Liabilities not covered by budgetary resources represent liabilities for which Congressional action is required before budgetary resources can be provided.
[7] Liabilities not requiring budgetary resources represent liabilities for clearing accounts and liabilities for non-fiduciary deposit funds for which Congressional action is not required.

NOTE 10: DEBT

		Beginning Balance	Net Borrowing	Ending Balance
FY 2019				
Intragovernmental Debt				
Debt to Treasury	$	46,706 $	4,600 $	51,306
Debt to the Federal Financing Bank (FFB)		46,647	(333)	46,314
Total Intragovernmental Debt		93,353	4,267	97,620
Agency Debt				
Held by the Public		0	0	0
Notes Payable		0	0	0
Total Agency Debt		0	0	0
Total Debt	**$**	**93,353 $**	**4,267 $**	**97,620**
FY 2018				
Intragovernmental Debt				
Debt to Treasury	$	49,577 $	(2,871) $	46,706
Debt to the Federal Financing Bank (FFB)		45,433	1,214	46,647
Total Intragovernmental Debt		95,010	(1,657)	93,353
Agency Debt				
Held by the Public		0	0	0
Notes Payable		0	0	0
Total Agency Debt		0	0	0
Total Debt	**$**	**95,010 $**	**(1,657) $**	**93,353**

NOTE 10: Continued

	FY 2019	FY 2018
Classification of Debt		
Intragovernmental Debt	$ 97,620	$ 93,353
Debt Held by the Public	0	0
Total Debt	**$ 97,620**	**$ 93,353**

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 2019	FY 2018
Interest Payable, Federal		
Federal Financing Bank	$ 26	$ 360
Total	**$ 26**	**$ 360**

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 2019	FY 2018
Interest Expense, Federal		
Federal Financing Bank	$ 1,442	$ 1,565
Treasury	1,859	1,894
Total	**$ 3,301**	**$ 3,459**

NOTE 11: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2019			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 7	$ 7
Employer Contributions & Payroll Taxes Payable	0	5	5
Unfunded FECA Liability	2	3	5
Liability for Deposit Fund & Suspense Accounts	0	0	0
Other Liabilities	0	0	0
Total Intragovernmental Debt	**$ 2**	**$ 15**	**$ 17**
Other Accrued Liabilities	0	53	53
Accrued Funded Payroll & Leave	0	16	16
Unfunded Annual Leave	0	35	35
Liability for Advances & Prepayments	0	(16)	(16)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	69	69
Other Liabilities	25	46	71
Total Other Liabilities	**$ 27**	**$ 218**	**$ 245**
FY 2018			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 8	$ 8
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**	**$ 14**	**$ 17**
Other Accrued Liabilities	0	70	70
Accrued Funded Payroll & Leave	0	15	15
Unfunded Annual Leave	0	32	32
Liability for Advances & Prepayments	0	(11)	(11)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	469	469
Other Liabilities	24	46	70
Total Other Liabilities	**$ 27**	**$ 635**	**$ 662**

These liabilities are or will be covered by Budgetary Resources.

NOTE 12: COMMITMENTS AND CONTINGENCIES

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, 2019 and 2018, there were approximately $3,703 million and $3,236 million, respectively.

Contingencies

Rural Development 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.

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
FY 2019			
Legal Contingencies			
Probable	$ 69	$ 69	69
Reasonably Possible	$ 0	$ 0	$ 0
FY 2018			
Legal Contingencies			
Probable	$ 469	$ 469	$ 472
Reasonably Possible	$ 0	$ 0	$ 5

The following contingency-related lawsuits are reportable for the fiscal year ending on September 30, 2019:

Rural Development is actively involved in restructuring negotiations.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments were deemed probable in FY 2014. As of September 2019, the Office of the General Counsel has made the determination that a $65 million unfavorable outcome is probable. This amount has been accrued to the financial statements beginning with FY 2014.

NOTE 12: Continued

In FY 2018, in addition to the breach of contract cases a Housing Section 515 borrower brought suit for expectancy damages. The suit was settled in June 2018 and the government has paid $4.2 million liability. The Office of the General Counsel has determined that the remaining amount of $3.1 million for tax neutralization damages currently on appeal is probable. The amount has been accrued in the financial statements.

In FY 2018, a Rural Utilities Service borrower asserted the intent to file bankruptcy. The Office of General Counsel had made the determination that a $400 million unfavorable outcome was probable. During FY 2019, the Office of General Counsel determined that the outcome is reasonably possible and that the amount of loss or range cannot be reasonably measured. This amount has not been accrued in the financial statements.

During FY 2019 the agency sued a Rural Utilities Service borrower, Sandwich Isle Communications, in an attempt to collect on defaulted program loans. Sandwich Isle Communications countersued the government on the basis of racial discrimination The Office of General Counsel determined that the outcome is reasonably possible and that the amount of loss or range cannot be reasonably measured. This amount has not been accrued in 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 STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2019					
Gross Costs:					
Borrowing Interest Expense	$ 721	$ 17	$ 852	$ 1,711	$ 3,301
Grants	10	1,264	707	0	1,981
Loan Cost Subsidies	233	13	296	(338)	204
Other	239	18	54	807	1,118
Total Gross Costs	**1,203**	**1,312**	**1,909**	**2,180**	**6,604**
Less:					
Earned Revenues	719	17	878	2,076	3,690
Net Cost of Operations	**$ 484**	**$ 1,295**	**$ 1,031**	**$ 104**	**$ 2,914**
FY 2018					
Gross Costs:					
Borrowing Interest Expense	$ 732	$ 16	$ 848	$ 1,863	$ 3,459
Grants	10	1,275	670	0	1,955
Loan Cost Subsidies	(114)	(1)	153	(132)	(94)
Other	755	49	212	770	1,786
Total Gross Cost	**1,383**	**1,339**	**1,883**	**2,501**	**7,106**
Less:					
Earned Revenue	739	17	874	2,213	3,843
Net Cost of Operations	**$ 644**	**$ 1,322**	**$ 1,009**	**$ 288**	**$ 3,263**

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 • Construction Defects • Rental Assistance Program • Other Housing Grants
Community & Regional Development	Community Development Area & Regional Development Disaster Relief and Insurance	451 452 453	Rural Housing Programs Rural Business Programs Rural Utilities Programs	• Rural Community Facility (Direct & Guaranteed) • Rural Business & Industry (Direct & Guaranteed) • Rural Economic Development (Loans & Grants) • Rural Energy for America Program • Disaster Assistance Fund • Healthy Food Initiative • Energy Assistance Payments • Intermediary Relending • Rural Water and Environmental (Direct & Guaranteed) • Distance Learning & Telemedicine • Broadband
Energy	Energy Supply & Conservation	271 272	Rural Utilities Programs	• Rural Electric & Telecommunications
Agriculture	Agricultural Research & Services	352	Rural Business Programs	• Research Loan

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

NOTE 13: Continued

Credit Reform

The amount of subsidy expense on direct loans made post-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 further discussions of revenue and present value refer to **Notes 1** and **6**.

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.

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 five percent, to not greater than the current market yield for outstanding municipal obligations of comparable maturities adjusted to the nearest eighth of one 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 seven percent. Electric municipal loans have a statutory basis for rates equal to the current market yield on outstanding municipal obligations, subject to a seven 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 five 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.

NOTE 13: Continued

Exchange Transactions with Federal Sources

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

NOTE 14: INTER-ENTITY COSTS

Beginning in FY 2019, pursuant to SFFAS 4, Managerial Cost Accounting Standards and Concepts, as amended, paragraph 113A, Rural Development is providing a disclosure with regards to imputed inter-entity costs.

Rural Development receives goods and services from other federal entities at no cost or at a cost less than the full cost. Consistent with accounting standards, certain costs of the Office of Personnel Management (OPM) and Department of Treasury Judgment Fund that are not fully reimbursed by Rural Development are recognized as imputed costs on the Statement of Net Cost and are offset by imputed revenue on the Statement of Changes in Net Position. The imputed costs and revenues relate to employee benefits and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified in this disclosure are not included in our financial statements.

NOTE 15: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2019, and 2018, the amount of available borrowing authority was $24,621 million and $25,304 million, respectively.

NOTE 16: TERMS OF BORROWING AUTHORITY USED

Requirements for Repayments of Borrowings

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

Financing Sources for Repayments of Borrowings

Rural Development utilizes reestimates, cash flows, liquidating account appropriations, and residual unobligated balances to repay Treasury borrowings.

NOTE 16: Continued

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. The enactment of the FY 2018 Agriculture Improvement Act has provided the borrowers the opportunity to prepay outstanding loans, using the Cushion of Credit balances, without penalty until September 30, 2020.

NOTE 17: 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 18: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Purpose

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.

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

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

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

The 2021 Budget of the United States Government, with the "Actual" columns completed for FY 2019, 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 2020. The Budget will be available from https://www.whitehouse.gov/omb/budget.

The 2020 Budget of the United States Government, with the "Actual" columns completed for FY 2018, was published in March of 2019 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.

NOTE 19: Continued

- In FY 2018, 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.

Reconciliation Between FY 2018 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)	36,920	Total Budgetary Resources Available for Obligation	36,814	$	106	None
				E	105	
				A	1	
New Obligations and Upward Adjustments (Line 2190)	22,646	Total New Obligations	22,640	$	6	None
				E	5	
				R	1	
Distributed Offsetting Receipts (Line 4200)	(1,688)	Treasury Combined Statement (Receipts by Department)	(1,688)	$	0	None
Net Outlays (Line 4190)	6,256	Outlays	6,259	$	(3)	None
				R	(3)	

Legend
E = Expired Budgetary Authority
R = Rounding
A = Adjustment

NOTE 20: UNDELIVERED ORDERS AT THE END OF THE PERIOD

	Undelivered Orders		
	Federal	Non Federal	Total
FY 2019			
Paid	$ 0	$ 0	$ 0
Unpaid	1,386	28,454	29,840
Total Undelivered Orders	**$ 1,386**	**$ 28,454**	**$ 29,840**
FY 2018			
Paid	$ 0	$ 0	$ 0
Unpaid	1,526	28,235	29,761
Total Undelivered Orders	**$ 1,526**	**$ 28,235**	**$ 29,761**

NOTE 21: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2019	FY 2018
Sources of Collections		
Recoveries and Refunds	$ 8	$ 5
Total Revenue Collected	**8**	**5**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	8	5
Total Disposition of Revenue	**8**	**5**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 22: RECONCILIATION OF NET COST TO NET OUTLAYS

Budgetary and financial accounting information are complementary, but the types of information and the timing of their recognition are different. Budgetary accounting is used for planning and control purposes and relates to the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a proprietary picture of the government's financial operations and financial position. More specifically, the financial accounting includes information about costs arising from the consumption of assets and the incurrence of liabilities. To better understand these differences, the Budget and Accrual Reconciliation (BAR) provides information on the relationship between net outlays and accrual-based amounts used in financial accounting during the reporting period.

The Components of Net Cost of Operations need to be adjusted by:

- Components of net cost that are not part of net outlays; and
- Component of net outlays that are not part of net cost.

During FY 2019 and FY 2018 the Agency reported significant components of net operating cost not part of the budgetary outlays. Intergovernmental activity for Year End Credit Reform Subsidy reestimates for FY 2019 was ($1,504) million and for FY 2018 ($1,301) million. The increase represents upward reestimates accruals that will not result in an outlay until FY 2020. The increase in Accounts Receivable is also connected to reestimate accruals for both upward and downward reestimates that will result in an outlay in FY 2020 in the financing accounts for upward reestimates and the treasury receipt accounts for downward reestimates. Loans Receivable balances experienced a change due to presentation changes for Allowances for Loss on Interest Receivable and due to a crosswalk change for Foreclosed Property. Accounts Payable change is due to interest paid for Federal Financing Loans. Other Liabilities change is attributable to FY 2018 credit reform subsidy reestimate outlays. Furthermore, there was a reversal of a previously recorded contingent liability further impacting the changes in net costs not part of budgetary outlays.

Additionally, in FY 2019 United States Department of Agriculture (USDA), Office of the Chief Financial Officer (OCFO) made changes to the crosswalks for the Reconciliation of the Net Cost to Net Outlays footnote. Other Liabilities in the components of net operating cost not part of budgetary outlays and Other in the total components of net outlays that are not part of net cost were updated to remove accounts associated with Debt and repayments of Debt. This change in the crosswalk resulted in the large variances for these two lines between FY 2019 and FY 2018. The change also contributed to a large decrease in the overall components for net outlays that are not part of net costs.

	FY 2019 Intergovernmental	FY 2019 With the Public	FY 2018 Intergovernmental	FY 2018 With the Public
Net Operating Cost (SNC)	**$ 3,152**	**$ (238)**	**$ 3,369**	**$ (106)**
Components of Net Operating Cost Not Part of Budgetary Outlays				
Property, plant and equipment depreciation	$ 0	$ (7)	$ 0	$ (9)
Property, plant and equipment disposal & reevaluation	0	0	0	0
Unrealized valuation loss/(gain) on investment	0	0	0	0
Year End Credit Reform Subsidy reestimates	(1,504)	0	(1,301)	0
Other	0	6	0	9
Increase/decrease in assets				
Accounts Receivable	533	0	288	0
Loans Receivable	0	1,441	0	1,563
Other Assets	0	0	0	5
Investments	0	0	0	0
Increase/decrease in liabilities				
Accounts Payable	334	(7)	(6)	2
Salaries and Benefits	0	(2)	0	0
Insurance and Guarantee Program Liabilities	0	73	0	292
Environmental and disposal liabilities	0	0	0	0
Other Liabilities	975	417	2,680	(409)
Debt	0	0	1,663	0
Credit Reform Subsidy reestimates	1,301	0	973	0
Contingent Liabilities	0	400	0	(390)
Other Liabilities	(326)	17	44	(19)
Other Financing Sources				
Federal Employee Retirement Benefit Costs	(133)	0	(160)	0
Other Imputed Finance	0	0	0	0
Total Components of Net Cost of Operations Not Part of Budget Outlays	**205**	**1,921**	**1,501**	**1,453**
Effect of prior year agencies credit reform subsidy reestimates	0	0	0	0
Acquisition of capital assets	0	2	0	0
Acquisition of inventory	0	0	0	16
Acquisition of other assets	0	0	0	0
Debt and Equity securities	0	0	0	0
Transfers out (in) without reimbursement	(4)	0	3	0
Other	0	(3)	(5)	(1,663)
Actual Repayment of Debt	0	0	0	(10,317)
Resources Realized from Borrowing Authority	0	0	0	9,250
Borrowing Authority Converted to Cash	0	0	0	(596)
Other	0	(3)	(5)	0
Total Components of Net Outlays that are Not Part of Net Cost	**(4)**	**(1)**	**(2)**	**(1,647)**
Net Outlays	**$ 3,353**	**$ 1,682**	**$ 4,868**	**$ (300)**
Related Amounts on the Statement of Budgetary Resources				
Outlays, gross		$ **21,542**		$ **19,010**
Actual Offsetting Collections		$ **(14,747)**		$ **(12,754)**
Distributed Offsetting Receipts (SBR 4200)		$ **(1,760)**		$ **(1,688)**
Outlays, Net (SBR 4210)		$ **5,035**		$ **4,568**
Difference		$ **0**		$ **0**

NOTE 23: FIDUCIARY ACTIVITY

Refer to **Note 1** 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, 2019 and 2018

	FY 2019	FY 2018
Fiduciary Net Assets, beginning of year	**$ 124**	**$ 116**
Contributions	439	445
Disbursements	440	437
Increase/Decrease in Fiduciary Fund Balances	**(1)**	**8**
Fiduciary Net Assets, end of year	**$ 123**	**$ 124**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2019 and 2018

	FY 2019	FY 2018
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 31	$ 10
Investments in Treasury Securities – Short Term	92	74
Investments in Treasury Securities– Long Term	0	40
Total Fiduciary Net Assets	**$ 123**	**$ 124**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 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 from Prior Year Budget Authority, Net	$ 399	$ 650	$ 114	$ 1,005
Recoveries of Prior Year Unpaid Obligations	64	402	87	234
Other Changes in Unobligated Balance	(49)	(648)	(23)	(734)
Unobligated Balance from Prior Year Budget Authority, Net	414	404	178	505
Appropriations	1,225	0	1,771	0
Borrowing Authority (Notes 15 and 16)	0	2,572	0	5,374
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	22	1,621	49	165
Total Budgetary Resources	**1,661**	**4,597**	**1,998**	**6,044**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,171	2,978	1,599	5,393
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	450	1,215	376	310
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	40	404	23	341
Unexpired Unobligated Balance, End of Year	490	1,619	399	651
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	490	1,619	399	651
Total Budgetary Resources	**1,661**	**4,597**	**1,998**	**6,044**
Outlays, Net:				
Outlays, Net	906	1,445	991	1,474
Distributed Offsetting Receipts	0	(239)	0	(534)
Agency Outlays, Net	**$ 906**	**$ 1,206**	**$ 991**	**$ 940**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 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 from Prior Year Budget Authority, Net	$ 7,269	$ 2,587	$ 6,985	$ 3,788
Recoveries of Prior Year Unpaid Obligations	0	1,283	1	253
Other Changes in Unobligated Balance	(117)	(1,277)	(141)	(3,177)
Unobligated Balance from Prior Year Budget Authority, Net	7,152	2,593	6,845	864
Appropriations	1,948	84	990	0
Borrowing Authority (Notes 15 and 16)	0	6,585	0	5,882
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	190	4,050	1,783	2,263
Total Budgetary Resources	**9,290**	**13,312**	**9,618**	**9,009**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	3,638	8,658	2,349	6,422
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	1,830	4,654	1,563	2,587
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	3,819	0	5,702	0
Unexpired Unobligated Balance, End of Year	5,649	4,654	7,265	2,587
Expired Unobligated Balance, End of Year	3	0	4	0
Total Unobligated Balance, End of Year	5,652	4,654	7,269	2,587
Total Budgetary Resources	**9,290**	**13,312**	**9,618**	**9,009**
Outlays, Net:				
Outlays, Net	3,284	(859)	450	1,139
Distributed Offsetting Receipts	0	(885)	0	(447)
Agency Outlays, Net	**$ 3,284**	**$ (1,744)**	**$ 450**	**$ 692**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 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 from Prior Year Budget Authority, Net	$ 0	$ 1	$ 3	$ 17
Recoveries of Prior Year Unpaid Obligations	0	0	1	38
Other Changes in Unobligated Balance	0	(1)	(4)	(55)
Unobligated Balance from Prior Year Budget Authority, Net	0	0	0	0
Appropriations	12	0	7	0
Borrowing Authority (Notes 15 and 16)	0	2	0	7
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	31	0	0
Total Budgetary Resources	**12**	**33**	**7**	**7**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	12	6	7	7
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	0	27	0	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	0	27	0	0
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	0	27	0	0
Total Budgetary Resources	**12**	**33**	**7**	**7**
Outlays, Net:				
Outlays, Net	12	(26)	7	(26)
Distributed Offsetting Receipts	0	(1)	0	0
Agency Outlays, Net	**$ 12**	**$ (27)**	**$ 7**	**$ (26)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund

Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 136	$ 1,544	$ 174	$ 2,337
Recoveries of Prior Year Unpaid Obligations	8	79	18	101
Other Changes in Unobligated Balance	(72)	(354)	(95)	(865)
Unobligated Balance from Prior Year Budget Authority, Net	72	1,269	97	1,573
Appropriations	687	0	662	0
Borrowing Authority (Notes 15 and 16)	0	1,623	0	2,003
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	176	2,592	63	1,283
Total Budgetary Resources	**935**	**5,484**	**822**	**4,859**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	730	3,252	685	3,349
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	164	2,232	36	1,465
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	35	45
Unexpired Unobligated Balance, End of Year	164	2,232	71	1,510
Expired Unobligated Balance, End of Year	41	0	66	0
Total Unobligated Balance, End of Year	205	2,232	137	1,510
Total Budgetary Resources	**935**	**5,484**	**822**	**4,859**
Outlays, Net:				
Outlays, Net	221	483	202	664
Distributed Offsetting Receipts	0	(591)	0	(622)
Agency Outlays, Net	**$ 221**	**$ (108)**	**$ 202**	**$ 42**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	**Rental Assistance Programs**	**Rental Assistance Programs**	**Rental Assistance Programs**
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 65	$ 0	$ 62	$ 0
Recoveries of Prior Year Unpaid Obligations	2	0	3	0
Other Changes in Unobligated Balance	(1)	0	1	0
Unobligated Balance from Prior Year Budget Authority, Net	66	0	66	0
Appropriations	1,390	0	1,398	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	0
Total Budgetary Resources	**1,456**	**0**	**1,464**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,398	0	1,399	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	47	0	53	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	2	0
Unexpired Unobligated Balance, End of Year	47	0	55	0
Expired Unobligated Balance, End of Year	11	0	10	0
Total Unobligated Balance, End of Year	58	0	65	0
Total Budgetary Resources	**1,456**	**0**	**1,464**	**0**
Outlays, Net:				
Outlays, Net	1,241	0	1,224	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,241**	**$ 0**	**$ 1,224**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	**Rural Housing Grants**	**Rural Housing Grants**	**Rural Housing Grants**
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 8	$ 0	$ 10	$ 4
Recoveries of Prior Year Unpaid Obligations	2	0	2	1
Other Changes in Unobligated Balance	0	0	0	(5)
Unobligated Balance from Prior Year Budget Authority, Net	10	0	12	0
Appropriations	75	0	70	0
Borrowing Authority (Notes 15 and 16)	0	0	0	188
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	0
Total Budgetary Resources	**85**	**0**	**82**	**188**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	69	0	74	154
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	16	0	7	34
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	1	0
Unexpired Unobligated Balance, End of Year	16	0	8	34
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	16	0	8	34
Total Budgetary Resources	**85**	**0**	**82**	**188**
Outlays, Net:				
Outlays, Net	60	0	60	47
Distributed Offsetting Receipts	0	0	0	(21)
Agency Outlays, Net	**$ 60**	**$ 0**	**$ 60**	**$ 26**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	**Salaries & Expense**	**Salaries & Expense**	**Salaries & Expense**
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 33	$ 0	$ 31	$ 0
Recoveries of Prior Year Unpaid Obligations	8	0	7	0
Other Changes in Unobligated Balance	(7)	0	(4)	0
Unobligated Balance from Prior Year Budget Authority, Net	34	0	34	0
Appropriations	240	0	231	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	487	0	472	0
Total Budgetary Resources	**761**	**0**	**737**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	730	0	704	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	19	0	21	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	19	0	21	0
Expired Unobligated Balance, End of Year	12	0	12	0
Total Unobligated Balance, End of Year	31	0	33	0
Total Budgetary Resources	**761**	**0**	**737**	**0**
Outlays, Net:				
Outlays, Net	199	0	220	0
Distributed Offsetting Receipts	(4)	0	(4)	0
Agency Outlays, Net	**$ 195**	**$ 0**	**$ 216**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
Schedule of Combined Statement of Budgetary Resources by Major Fund
Amounts Presented in Millions

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,385	$ 197	$ 429	$ 466
Recoveries of Prior Year Unpaid Obligations	67	9	188	40
Other Changes in Unobligated Balance	(2)	(60)	5	(271)
Unobligated Balance from Prior Year Budget Authority, Net	1,450	146	622	235
Appropriations	428	0	828	0
Borrowing Authority (Notes 15 and 16)	0	131	0	216
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	235	385	228	(44)
Total Budgetary Resources	**2,113**	**662**	**1,678**	**407**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	365	197	294	210
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	1,499	406	1,154	101
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	240	59	222	96
Unexpired Unobligated Balance, End of Year	1,739	465	1,376	197
Expired Unobligated Balance, End of Year	9	0	8	0
Total Unobligated Balance, End of Year	1,748	465	1,384	197
Total Budgetary Resources	**2,113**	**662**	**1,678**	**407**
Outlays, Net:				
Outlays, Net	3	(174)	(14)	(182)
Distributed Offsetting Receipts	0	(40)	0	(60)
Agency Outlays, Net	**$ 3**	**$ (214)**	**$ (14)**	**$ (242)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 9,295	$ 4,979	$ 7,808	$ 7,617
Recoveries of Prior Year Unpaid Obligations	151	1,773	307	667
Other Changes in Unobligated Balance	(248)	(2,340)	(261)	(5,107)
Unobligated Balance from Prior Year Budget Authority, Net	9,198	4,412	7,854	3,177
Appropriations	6,005	84	5,957	0
Borrowing Authority (Notes 15 and 16)	0	10,913	0	13,670
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,110	8,679	2,595	3,667
Total Budgetary Resources	**16,313**	**24,088**	**16,406**	**20,514**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	8,113	15,091	7,111	15,535
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	4,025	8,534	3,210	4,497
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	4,099	463	5,985	482
Unexpired Unobligated Balance, End of Year	8,124	8,997	9,195	4,979
Expired Unobligated Balance, End of Year	76	0	100	0
Total Unobligated Balance, End of Year	8,200	8,997	9,295	4,979
Total Budgetary Resources	**16,313**	**24,088**	**16,406**	**20,514**
Outlays, Net				
Outlays, Net	5,926	869	3,140	3,116
Distributed Offsetting Receipts	(4)	(1,756)	(4)	(1,684)
Agency Outlays, Net	**$ 5,922**	**$ (887)**	**$ 3,136**	**$ 1,432**

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