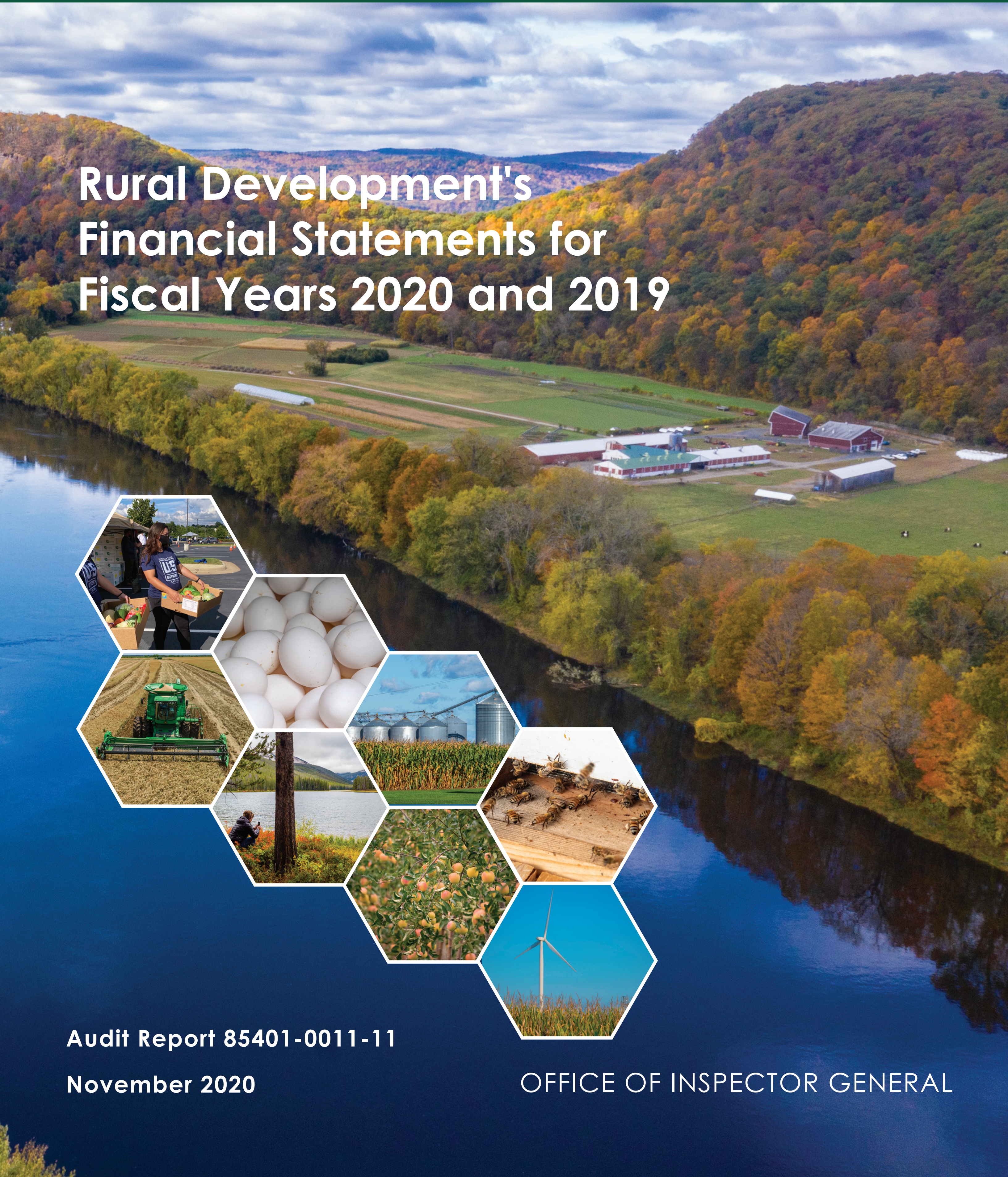
United States Department of Agriculture



Rural Development's Financial Statements for Fiscal Years 2020 and 2019

Audit Report 85401-0011-11

November 2020

OFFICE OF INSPECTOR GENERAL

Rural Development's Financial Statements for Fiscal Years 2020 and 2019

Audit Report 85401-0011-11

OIG audited the consolidated financial statements of Rural Development for fiscal years 2020 and 2019.

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 (OIG) 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, 2020 and 2019, 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.

OFFICE OF INSPECTOR GENERAL
United States Department of Agriculture

DATE: November 9, 2020

AUDIT NUMBER: 85401-0011-11

TO: Bette Brand
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 2020 and 2019

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2020, and 2019. This report contains an unmodified opinion on the financial statements, as well as the results of our assessments 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

Bette Brand
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 2020 and 2019. We also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on 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, 2020 and 2019, 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").

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, 2020 and 2019, 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

Management has elected to reference information on websites or other forms of interactive data outside the financial statements to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites or the other interactive data 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 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 an 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 to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an

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

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 as of and for the years ended September 30, 2020 and 2019, we considered Rural Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Development's internal control. 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 as of and for the years ended September 30, 2020 and 2019 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 amounts and disclosures 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 disclosures 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 disclosures in the financial statements that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2020. 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 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 6, 2020

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

4300 Goodfellow Blvd
St. Louis Mo 63120

Voice 314.457.4150
Fax 844.539.5800

November 6, 2020

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

FROM: Bette Brand Bette Brand 2020-10-30
Deputy Under Secretary
Rural Development

Tony Bainbridge Tony Bainbridge Digitally signed by ANTHONY BAINBRIDGE Date: 2020.10.28 08:59:57 -05'00'
Chief Financial Officer

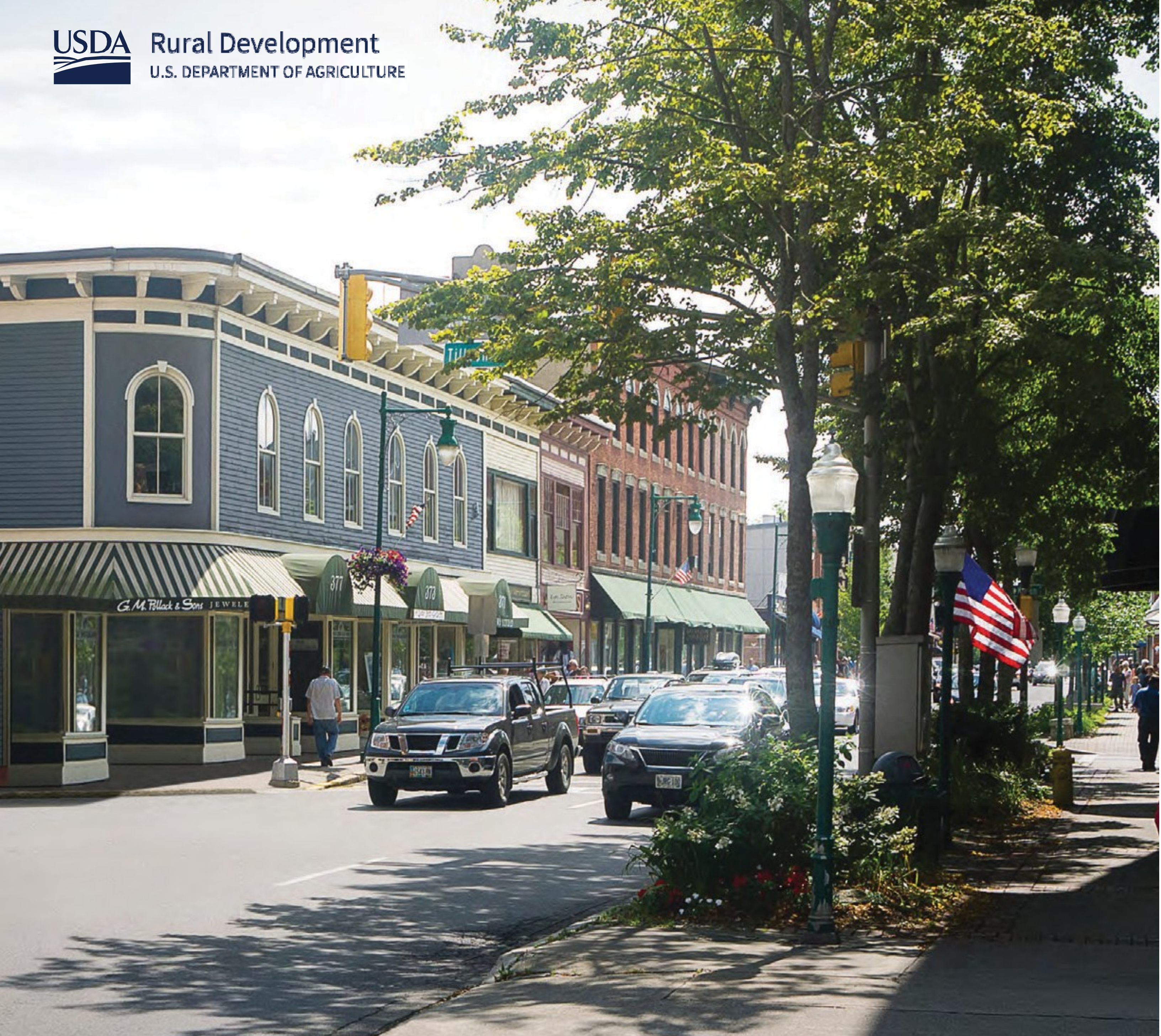
SUBJECT: Response to Draft Audit Report on
Rural Development's Fiscal Year 2020
Financial Statements

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2020 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 2020 AND 2019
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE



"Together, America Prospers"

FINANCIAL STATEMENTS

Fiscal Years 2020 and 2019

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, 2020, AND 2019

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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 a financial organization committed to helping improve the economy and quality of life in all of rural America by providing 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). Rural Development is uniquely positioned to support the rural economy through a network of National Office, state offices, and field offices delivering programs across rural America. The Innovation Center provides leadership over regulatory development, data and analytics and strategic partnership. 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) 2020 than in FY 2019. There was an increase in the direct portfolio from $94.2 billion to $98.1 billion and an increase in the guaranteed portfolio from $118.7 billion to $122.2 billion.

Total Loan Portfolio as of September 30, 2020
FY's 2018 Through 2020
(Dollars in Billions)

	FY 2020	FY 2019	FY 2018
Direct Loans			
Water & Environmental	$13.4	$13.1	$12.8
Electric	47.2	44.0	42.6
Telecommunications	2.6	2.9	3.2
Business Programs	0.8	0.8	0.8
Single Family Housing	13.6	13.6	14.1
Multi-Family Housing	9.9	10.0	10.3
Community Facilities	10.6	9.8	8.6
Total Direct	98.1	94.2	92.4
Guaranteed Loans			
Water & Environmental	$0.1	$0.1	$0.1
Electric	0.2	0.2	0.2
Business Programs	5.9	5.8	5.5
Single/Multi-Family Housing	115.0	111.6	110.6
Community Facilities	1.0	1.0	1.0
Total Guaranteed	122.2	118.7	117.4
Total Loan Portfolio	**$220.3**	**$212.9**	**$209.8**

Rural Development grant programs are not reflected in the portfolio table above.

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 deliver loans, loan guarantees, grant programs, and technical assistance to support rural businesses, and provide job training in rural areas through capital, training, education, and entrepreneurial skills in rural communities, agricultural markets and the bio-based economy.

Housing and community facilities (CF) 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 CF programs provide loans, grants and rental assistance (RA) 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 2020

	FY 2020 Target	FY 2020 Actual	Results
Telecommunications Loans Number of borrowers'/grantees' subscribers receiving new and/or improved telecommunication services (thousands)	160	131	Unmet
Community Facilities (CF) Percent of customers who are provided access to new and/or improved essential community facilities-Health Facilities	3%	5.07%	Met
Distressed Communities RD funds (overall) that are being invested in distressed communities	13%	12.5%	Unmet

Rural Development did not meet its subscriber target for Telecommunications. Projects under the e-Connectivity program were de-obligated/rescinded reducing the projected number of subscribers.

The Distressed Communities target was Unmet. The size of the Single Family Housing (SFH) Guaranteed program reduced distressed community investment averages for Rural Development as a whole. Rural Development does not have the ability to target where guaranteed obligations are made since this is controlled by the private sector. COVID-19 increased the vulnerability of distressed communities, and Rural Development has made an effort to focus on finding new ways to engage and conduct outreach under COVID-19.

Future Opportunities and Challenges

The strategic goals for USDA Rural Development remain consistent under Secretary Perdue's vision for the department, with the specific goals as follows:

> 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 is uniquely positioned to support the rural economy. Throughout the Coronavirus (COVID-19) pandemic, Rural Development continued operations and quickly responded to the changing needs of our customers. Building on this success, Rural Development will continue to serve those we serve best in rural America.

Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress provided additional funding to the e-Connectivity Program, the Distance Learning and Telemedicine (DLT) Program, and the Business & Industry (B&I) Guaranteed Loan Program. Specific facts and figures will be addressed in the Financial Highlights section of this report.

The OneRD Guarantee rule streamlines our processes across four Rural Development programs to increase private investments in rural businesses and rural economic development projects. The rule standardizes documents across program areas, improves program delivery, and reduces the burden on lenders, applicants, and staff in our four flagship programs: Water and Waste Water Disposal Guaranteed Loan Program, the CF Guaranteed Loan Program, the B&I Guaranteed Loan Program, and the Rural Energy for America (REAP) Guaranteed Loan Program.

The need for rural broadband has never been greater, and the demand for high-speed e-Connectivity will only increase in the wake of COVID-19. Remote workforces, distance learning, and telemedicine each require high capacity broadband infrastructure, and USDA Rural Development is uniquely positioned to provide resources to expand and develop that infrastructure. Rural Development's Broadband Access Loan & Guarantee Program, Distance Learning and Telemedicine Grants, Community Connect Grants, and the e-Connectivity Programs will all play a critical role in the efforts to improve broadband access in rural communities.

Beyond broadband, Rural Development's suite of program offerings will continue to assist rural communities respond and adapt to the changing economic environment.

In FY 2020, CF has continued prioritizing diversified support for economic prosperity in rural America through critical investments in community infrastructure and the dissemination of resources to assist communities. CF has also enhanced risk assessment processes and program compliance to ensure strong portfolio health.

COVID-19 has created new challenges for CF. Lack of surety regarding revenues to state and local governments, temporary facility closures, and increasing expenses for rural healthcare and educational facilities are all impacting applicant demand for the CF Direct Loan Program. These changes have been identified as a potential risk to the Enterprise. The CF program supports loans and grants to expand, refurbish, or improve rural hospitals.

Recently, the B&I Guaranteed Loan Program has sought ways to continue building on its past successes. In addition to leveraging investments with outside funding, the program continually seeks ways to reduce its cost and make program funding go farther. For example, the B&I program recently increased its annual renewal fee 2 to 3 percent, which will help offset the cost of the program.

In the Direct Multi-Family Housing (MFH) Program, the number of occupied RA units is holding steady, reflecting efficient reallocation of RA units from properties leaving the program to properties remaining, as well as greater demand for assisted versus non assisted units. Rural Development is focused on preservation activities to address Section 515 mortgage maturities over the next 10 years throughout the country. When a Section 515 property reaches maturity, it can be sold in the market without restrictions. Rural Development utilizes several strategies to preserve 515 properties as affordable rural rental housing, including technical assistance for owners or properties with maturing mortgages and funding preservation efforts through the Multifamily Preservation and Revitalization Demonstration (MPR).

To capitalize on key opportunities, Water and Environmental Programs (WEP) will continue to amplify its emphasis on the delivery of services to communities that lack service, are underserved, face health/sanitary issues, or are in high-priority locations, such as distressed communities and persistent poverty counties. This includes building upon existing federal and non-federal relationships to maximize collaborative financing, marketing the expansion of the guaranteed loan program, and further enhancing Rural Development's suite of automated programs to increase access and streamline processes. Also, expanding upon and capturing the overall reach and success of the technical assistance programs, such as the Circuit Rider and Technical Assistance and Training Grants programs, is essential to ensuring the vitality of water and waste systems in rural America.

Financial Highlights

Fiscal Year Ending September 30th (Dollars in Millions)	**FY 2020**	**FY 2019**
Total Assets	$114,310	$112,042
Total Liabilities	$108,760	$106,372
Total Net Position	$5,550	$5,670
Total Net Cost of Operations	$3,329	$2,914
Total Budgetary Resources	$42,011	$40,401

Rural Development had total assets of $114,310 million at the end of FY 2020, up from $112,042 million. A $2,280 million decrease in Fund Balance with Treasury (FBWT) combined with a $4,589 million increase in the Direct Loan and Loan Guarantees were the most significant lines in the asset category affecting the change. The decrease in FBWT was mainly attributed to FFB Electric Loans. The decrease was associated with funds in the Cushion of Credit (COC) being spent instead of deposited in that account. The increase in the portfolio was mostly attributed to the following programs: FFB Electric loans, Rural CF and Water and Waste Disposal Loans, which has been trending up over the last several years.

Total Liabilities of $108,760 million in FY 2020 increased from $106,372 million in FY 2019, an increase of $2,388 million. A $1,570 million increase in Debt and a $908 million increase in Loan Guarantee Liability were the most significant lines in the Liability category affecting the change which is mostly attributed to Rural Development borrowing more from Treasury in order to finance new loans and daily operations. The increase in Loan Guarantee Liability is attributed to higher costs of Rural Development's guaranteed loans.

Total Net Position decreased $120 million in FY 2020 compared to FY 2019. The change in the Net Position is caused by an increase in the Unexpended Appropriations that was offset by overall increase in the Net Cost of Operations and Other Financing Sources attributed to changes in downward reestimates between FY 2020 and FY 2019.

Total Net Cost of Operations increased $415 million in FY 2020 from FY 2019. This increase is due to FY 2019 containing a large contingent liability reversal in Rural Development's Salaries and Expenses account which contributed to the overall Net Cost being much lower in FY 2019 than would normally be associated with regular costs of operations. In FY 2020 there were no large reversals in the Salaries and Expenses account reflecting the net cost of operations more on trend.

Total Budgetary Resources increased by $1,610 million primarily due to large decreases in budgetary resources in Rural Development's liquidating account that were offset by overall increases in Rural Development financing accounts. The decrease in the liquidating account was associated with funds in the COC being spent instead of deposited in that account. This change was due to the 2018 American Improvement Act. The increases in the financing account that offset this decrease in the liquidating account and contributed to the overall increase in budgetary resources was due to higher amounts of spending authority such as collections received, a slight increase in borrowing authority and also changes in the unobligated balances brought forward from prior year into FY 2020.

COVID-19

In March 2020, Public Law 116-136, the CARES Act was passed by the United States Congress in response to COVID-19. The law addresses the impact of the outbreak on the economy, public health, state and local governments, individuals and businesses. The law provides supplemental appropriations for FY 2020 for Federal agencies to respond to COVID-19. Rural Development received supplemental appropriations for the below programs.

- Distance Learning, Telemedicine and Broadband Program ReConnect Grants, supplemental appropriation $100 million.
- Distance Learning, Telemedicine and Broadband Program Grants, supplemental appropriation $25 million.
- Rural Business and Industry Guaranteed Loan Program Subsidy, supplemental appropriation $21 million.

In addition to the supplemental appropriations the legislation also provided flexibilities for Rural Development programs. To assist our customers and meet the challenges of rural communities impacted by COVID-19:

- Rural Development has implemented loan moratoriums and loan deferrals. The below stated programs summarize the impact of the deferrals and moratoriums on the specific loan programs.

- Rural Housing Program-MFH Loans currently have around 5,380 loan deferrals active. Total amount of the deferrals is $23 million.
- Rural Housing Program-SFH Direct Loans processed around 18,156 requests for loan moratoriums and deferrals of which 13,286 are still active. Total amount of the deferrals is $91 million.
- Rural CF-CF Direct Loans currently has 108 active deferrals. Total amount of the deferrals is $21 million.
- Rural Utilities Program-Telecommunications Loans has 1 loan deferral active. Total amount of the deferral is $2 million.

For additional information on obligations, outlays and financial statement impacts specific to the supplemental appropriations refer to **Note 24** COVID-19 Activity.

The principal financial statements are prepared to report the financial position, financial condition, and results of operations pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from the records of Federal entities in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

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 OMB Circular No. A-123, Management's Responsibility for ERM and Internal Control, for the period ended September 30, 2020. 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 deficiency 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 2020, there were no new material weaknesses, or significant deficiencies. One existing significant deficiency was completed and closed during FY 2020. This pertained to Rural Development's management and oversight of SFH procurement processes and unauthorized commitments related to SFH foreclosure activity.

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 2020, there were no new non-conformances and no new consolidated non-conformances identified.

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 and grant accounting and servicing systems, in addition to their front-end applications, contain functionality and/or information for loan and grant applications, loan and grant characteristics, borrower and grantee 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, program performance, and credit reform loan indicators. There are five major loan and grant accounting and 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 and grants for the Rural Development MFH programs to include the RA programs.

Both PLAS and AMAS are more than 25 years old and funding to begin modernization efforts in FY 2021 has been approved.

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.

Commercial Loan Servicing System (CLSS) - The CLSS system supports the Electric, Telecommunications and some WEP, CF and BP direct loan and grant programs. 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 and grant accounting and 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, 2020. 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 2020.

Payment Integrity Information Act of 2019

The Payment Integrity Information Act of 2019 (PIIA) was enacted during FY 2020 and repeals and replaces the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Fraud Reduction and Data Analytics Act of 2015 (FRDAA).

The PIIA requires 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 (referred to as a high-risk program) has both a 1.5 percent improper payment rate and at least $10 million in improper payments or exceeds $100 million dollars in improper payments. Rural Development does not report any program meeting the high-risk threshold.

Agencies are required to establish a recovery audit program or provide a justification that a recovery audit program would not be cost effective for each program that expends $1 million or more annually. For Rural Development, 32 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. 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.

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND 2019
(In Millions)

	2020	2019
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 19,825	$ 22,104
Accounts Receivable, Net (Note 5)	0	0
Other (Note 8)	0	0
Total Intragovernmental	19,825	22,104
Cash and Other Monetary Assets (Note 4)	46	46
Direct Loan and Loan Guarantees, Net (Note 6)	94,402	89,814
General Property, Plant and Equipment, Net (Note 7)	37	41
Other (Note 8)	0	37
Total Assets	**114,310**	**112,042**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	0	0
Debt (Note 10)	99,190	97,620
Resources Payable to Treasury	6,944	6,945
Downward Reestimates Payable to Treasury General Fund	1,811	1,282
Other (Note 11)	24	17
Total Intragovernmental	107,969	105,864
Accounts Payable	52	39
Loan Guarantee Liability (Note 6)	1,118	210
Federal Employee and Veteran Benefits (Note 9)	27	31
Other (Note 11)	(406)	228
Total Liabilities	**108,760**	**106,372**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	6,557	5,743
Cumulative Results of Operations	(1,007)	(73)
Total Net Position	**5,550**	**5,670**
Total Liabilities and Net Position	**$ 114,310**	**$ 112,042**

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, 2020 AND 2019
(In Millions)

		2020		**2019**
Gross Costs (Note 13)				
Borrowing Interest Expense	$	3,338	$	3,301
Grants		2,014		1,981
Loan Cost Subsidies		920		204
Other		658		1,118
Total Gross Costs		**6,930**		**6,604**
Less: Earned Revenue (Note 13)		3,601		3,690
Net Cost of Operations	**$**	**3,329**	**$**	**2,914**

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, 2020 AND 2019
(In Millions)

	2020	2019
Unexpended Appropriations:		
Beginning Balances	$ 5,743	$ 5,126
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	$ 5,743	$ 5,126
Budgetary Financing Sources:		
Appropriations Received	6,044	5,928
Appropriations Transferred In/Out	(12)	(2)
Other Adjustments	(19)	7
Appropriations Used	(5,199)	(5,316)
Total Budgetary Financing Sources	814	617
Total Unexpended Appropriations	$ **6,557**	$ **5,743**
Cumulative Results of Operations:		
Beginning Balances	$ (73)	$ (551)
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$** (73)	**$** (551)
Budgetary Financing Sources:		
Other Adjustments	(9)	(3)
Appropriations Used	5,199	5,316
Nonexchange Revenue	0	0
Transfers In/Out Without Reimbursement	204	129
Other Financing Sources (Nonexchange):		
Transfers In/Out Without Reimbursement	0	0
Imputed Financing (Note 14)	40	133
Other	(3,039)	(2,183)
Total Financing Sources	**2,395**	**3,392**
Net Cost of Operations	(3,329)	(2,914)
Net Change	(934)	478
Cumulative Results of Operations	**$** **(1,007)**	$ **(73)**
Net Position	**$** **5,550**	**$** **5,670**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

RURAL DEVELOPMENT

COMBINED STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDING SEPTEMBER 30, 2020 AND 2019

(In Millions)

	2020		2019	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 8,200	$ 8,997	$ 9,295	$ 4,979
Recoveries of Prior Year Unpaid Obligations	143	746	151	1,773
Other Changes in Unobligated Balance	(240)	(4,121)	(248)	(2,340)
Unobligated Balance from Prior Year Budget Authority, Net	8,103	5,622	9,198	4,412
Appropriations	6,232	1	6,005	84
Borrowing Authority (Notes 15 and 16)	0	11,209	0	10,913
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	818	10,026	1,110	8,679
Total Budgetary Resources	**$ 15,153**	**$ 26,858**	**$ 16,313**	**$ 24,088**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	$ 11,316	$ 17,397	$ 8,113	$ 15,091
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	2,580	9,258	4,025	8,534
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	1,187	203	4,099	463
Unexpired Unobligated Balance, End of Year	3,767	9,461	8,124	8,997
Expired Unobligated Balance, End of Year	70	0	76	0
Total Unobligated Balance, End of Year	3,837	9,461	8,200	8,997
Total Budgetary Resources	**$ 15,153**	**$ 26,858**	**$ 16,313**	**$ 24,088**
Outlays, Net				
Outlays, Net (total)	8,351	0	5,926	0
Distributed Offsetting Receipts	(1,924)	0	(1,760)	0
Agency Outlays, Net	**$ 6,427**	**$ 0**	**$ 4,166**	**$ 0**
Disbursements, Net		**$ 1,153**		**$ 869**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

RURAL DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2020, AND 2019 (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 2019 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 2020 and FY 2019. Footnotes have also been reclassified and additional information has been added to the applicable changes in guidance or presentation preferences.

Rural Development reclassified Distributed Offsetting Receipts as presented on the Combined Statement of Budgetary Resources and the Required Supplementary Information from the Non-Budgetary Column to the Budgetary Column for FY 2020 and FY 2019. Additionally, Non-Budgetary Outlays, Net were moved to a new line Disbursements, Net. Furthermore, Rural Development reclassified the Reconciliation of Net Cost to Net Outlays for FY 2020 and FY 2019. Per A-136 guidance the Reconciliation of Net Cost to Net Outlays changed the presentation for both FY 2020 and FY 2019 by removing the Non-Budgetary reconciling items from the note. (Note 22). The changes were part of United States Department of Agriculture (USDA) department wide initiative to ensure all department wide agencies are consistent with the new guidance.

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.

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
- Business and Industry CARES Act Guaranteed Loans & Grants
- Rural Business Development Grants
- Rural Business Investment Loans & Grants
- Intermediary Relending Program Loans
- Rural Microentrepreneur Assistance Loans & Grants
- 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 Environmental Disposal Direct Loans, Loan Guarantees & Grants
- Solid Waste Management Grants
- Water and Waste Disposal Technical Assistance & Training Grants
- Circuit Rider Loans & Grants
- Rural Broadband Access Direct Loans and Loan Guarantees
- Electric and Telecommunications Infrastructure Direct Loans & Loan Guarantees
- Energy Efficiency & Conservation Loans
- Rural Energy Savings Loans & Grants
- 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 that 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.

Direct Loans and Loan Guarantees, 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 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 2020	FY 2019
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	114,264	111,996
Total Assets	**$ 114,310**	**$ 112,042**

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 2020) 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 2020 and 2019, there were approximately $122 million and $99 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 2020	FY 2019
Status of Fund Balance with Treasury (FBWT)		
Unobligated Balance:		
Available	$ 11,838	$ 12,559
Unavailable	1,460	4,638
Obligated Balance Not Yet Disbursed	31,810	29,551
Borrowing Authority Not Yet Converted to Fund Balance	(25,261)	(24,621)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(22)	(27)
Temporary Reduction of New Budget Authority	0	4
Appropriation Purpose Fulfilled - Balance Not Available	1	0
Non-Budgetary Fund Balance with Treasury	(1)	0
Total	**$ 19,825**	**$ 22,104**

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, 2020.

	FY 2020	FY 2019
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 2020			
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 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**

Criminal Restitution

The outstanding balance for criminal restitution was $3 million for both fiscal years.

NOTE 6: DIRECT LOAN AND LOAN GUARANTEES, 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 $94,402 million in outstanding credit program net receivables, and the guaranteed program has an outstanding guarantee of $122,200 million with a liability of $1,118 million, as of September 30, 2020.

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 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 deliver loans, loan guarantees, grant programs, and technical assistance to support rural businesses, and provide job training in rural areas through capital, training, education, and entrepreneurial skills in rural communities, agricultural markets and the bio-based economy.

Housing and community facilities (CF) 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 CF programs provide loans, grants and rental assistance (RA) 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.

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

A financial statement adjustment of $359 million was recorded to Allowance for Subsidy in the Rural Electric and Telecommunications Program and Financing account for additional subsidy. In FY 2020, the technical reestimate calculated using the approved model was $816 million and by recording this accrual, the Allowance for Subsidy would have been significantly understated. As a result, RD's management decided to adjust the FY 2020 reestimate for financial statement reporting.

The Agency processed a significant amount of Federal Financing Bank loan prepayments in FY 2020 and FY 2019 as part of the changes enacted in the 2018 Agriculture Improvement Act.

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 2020 and 2019, Rural Housing Program properties consist primarily of 1,267 and 2,398 rural single-family dwellings, respectively. The average holding period for single family housing properties in inventory was 16 months for FY 2020 and 15 months for FY 2019. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2020 and 2019 was 15,065 and 17,207, 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 $14,328 million and $14,458 million of the Rural Housing borrowers' unpaid loan principal, as of September 30, 2020 and 2019, 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 $666 million and $682 million higher for FY's 2020 and 2019, respectively.

Also, at the end of FY's 2020 and 2019, the Rural Development housing portfolio contained approximately 48,280 and 51,684 restructured loans, respectively. The outstanding unpaid principal balance was $2,584 million in FY 2020 and $2,711 million in FY 2019.

Modifications
A modification is any government action, different from actions in the baseline assumption, 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.

NOTE 6: Continued

Multi-Family Housing direct loan modifications related to the revitalization program, which began in FY 2006, and continued through FY 2020. 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. Refer to TABLE 3 on page 33 as reference for the amounts. The Cushion of Credit (CoC) modifications were a direct result of the enactment of the 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.

In FY 2020, Rural Development in consultation with the Office of Management Budget (OMB) and the United States Department of Agriculture Office of the General Counsel (OGC) developed an administrative solution that allowed a pro-rata share of the modification cost in the Rural Utilities Service Financing Account to be provided to the Federal Financing Bank (FFB) per the 2018 Agriculture Improvement Act Section 6503(D). As part of the administrative solution Rural Development provided FFB with a lump sum, one-time payment of $733 million of the modification cost for prepayments from the (CoC).

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 2020 and 2019, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY's 2020 and 2019, 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. However, for FY 2020 Rural Development used economic data from the Congressional Budget Office (CBO) and Moody's state level Housing Price Index (HPI) for the Guaranteed Single-Family Housing program in the calculations and analysis.

NOTE 6: Continued

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.

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

DIRECT 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 2020 and FY 2019. Direct Loan and Loan Guarantees, net balances at the end of FY 2020 was $94,402 million compared to $89,814 million at the end of FY 2019. Defaulted guaranteed loans were $224 million in FY 2020 as compared to $174 million in FY 2019.

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: DIRECT LOAN AND LOAN GUARANTEES, NET

FY 2020		Loans Receivable, Gross		Interest Receivable		Foreclosed Property		Allowance [1]		Value of Assets
Direct Loans										
Obligated Pre-1992										
Housing	$	5,610	$	763	$	6	$	(613)	$	5,766
Community Facility		8		0		0		0		8
Electric		1,854		2		0		(1,427)		429
Telecommunication		40		0		0		0		40
Water and Environmental		203		2		0		0		205
Intermediary Relending		2		0		0		0		2
Pre-1992 Total		**7,717**		**767**		**6**		**(2,040)**		**6,450**
Obligated Post-1991										
Housing		17,803		465		77		(2,302)		16,043
Community Facility		10,536		73		0		(120)		10,489
Electric		47,010		27		0		(1,169)		45,868
Telecommunication		2,735		1		0		10		2,746
Water and Environmental		13,204		88		0		590		13,882
Intermediary Relending		342		2		0		(70)		274
Business and Industry		46		0		0		(6)		40
Economic Development		200		0		0		(16)		184
Post-1991 Total		**91,876**		**656**		**77**		**(3,083)**		**89,526**
Cushion of Credit Advance Payments		(1,798)		0		0		0		(1,798)
Total Direct Loans Receivable		**97,795**		**1,423**		**83**		**(5,123)**		**94,178**
Defaulted Guaranteed Loans										
Post-1991										
Housing		126		0		0		(94)		32
Community Facility		8		0		0		0		8
Business and Industry		227		0		0		(43)		184
Total Defaulted Guaranteed Loans	**$**	**361**	**$**	**0**	**$**	**0**	**$**	**(137)**	**$**	**224**
Total Direct Loan and Loan Guarantees, Net									**$**	**94,402**

[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: DIRECT LOAN AND LOAN GUARANTEES, NET

FY 2019	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [2]	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 Direct Loan and Loan Guarantees, Net					**$ 89,814**

[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 2020 to FY 2019. The subsidy cost allowance in FY 2020 was $3,220 million compared to $3,583 million in FY 2019, a decrease of $363 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2020**	**FY 2019**
Beginning Balance of the Subsidy Cost Allowance	$ 3,583	$ 3,176
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	(158)	(195)
Default costs (net of recoveries)	111	105
Fees and other collections	(49)	(13)
Other subsidy costs	(63)	(53)
Total of the above subsidy expense components	(159)	(156)
Adjustments:		
Loan modifications	7	898
Fees received	77	86
Loans written off	(107)	(612)
Subsidy allowance amortization	145	477
Other	(359)	122
Ending balance of the subsidy cost allowance before reestimates	**3,187**	**3,991**
Add or subtract reestimates by component:		
Interest rate reestimates	(26)	(57)
Technical/default reestimates	59	(351)
Total of the above reestimate components	33	(408)
Ending Balance of the Subsidy Cost Allowance	**$ 3,220**	**$ 3,583**

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 2020 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 2020 and 2019 by program. Total direct loan subsidy expense in FY 2020 was $(119) million compared to $334 million in FY 2019, a decrease of $453 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 2020										
Housing	$ 67	$ 52	$ 0	$ 5	$ 124	$ 7	$ (71)	$ (67)	$ (138)	$ **(7)**
Community Facility	(134)	42	0	6	(86)	0	152	(275)	(123)	**(209)**
Electric	(172)	14	(49)	(25)	(232)	0	(126)	1307	1181	**949**
Telecommunications	0	2	0	(2)	0	0	(29)	10	(19)	**(19)**
Water & Environmental	70	1	0	(47)	24	0	50	(917)	(867)	**(843)**
Intermediary Relending	4	0	0	0	4	0	(2)	1	(1)	**3**
Business and Industry	1	0	0	0	1	0	0	1	1	**2**
Economic Development	6	0	0	0	6	0	0	(1)	(1)	**5**
Total Subsidy Expense, Direct	**$ (158)**	**$ 111**	**$ (49)**	**$ (63)**	**$ (159)**	**$ 7**	**$ (26)**	**$ 59**	**$ 33**	**$ (119)**
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**

NOTE 6: Continued

Direct Loans Disbursed
Volume distribution between programs is shown in **Table 4.** Direct loans disbursed in FY 2020 was $9,191 million compared to $7,869 million in FY 2019, an increase of $1,322 million.

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

	FY 2020	FY 2019	FY 2020 Over/Under FY 2019
Housing	$ 1,255	$ 1,151	$ 104
Community Facility	1,278	1,530	(252)
Electric	5,177	4,218	959
Telecommunications	150	114	36
Water and Environmental	1,271	780	491
Intermediary Relending	16	18	(2)
Business and Industry	5	5	0
Economic Development	39	53	(14)
Total Direct Loans Disbursed	**$ 9,191**	**$ 7,869**	**$ 1,322**

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 2020 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 2020 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 2020	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	3.40	4.90	0.00	0.70	9.00
Section 504 Housing Repair	21.06	-0.04	0.00	-4.31	16.71
Single Family Housing Credit Sales	-6.78	2.23	0.00	2.70	-1.85
Section 514 Farm Labor Housing	31.62	0.17	0.00	-0.58	31.21
Section 515 Multi-Family Housing	30.83	0.89	0.00	-1.36	30.36
Section 523 Self-Help Housing Land Development	6.97	4.52	0.00	0.05	11.54
Section 524 Site Development	4.70	5.44	0.00	0.77	10.91
Multi-Family Housing Credit Sales			Not Funded		
Multi-Family Housing Relending			Not Funded		
Multi-Family Housing Revitalization Second	57.99	0.42	0.00	-0.06	58.35
Multi-Family Revitalization Zero	52.70	0.34	0.00	-0.18	52.86
Community Facilities	-10.64	3.63	0.00	2.05	-4.96
Community Facilities Relending			Not Funded		
Distance Learning and Telemedicine			Not Funded		
Broadband Treasury Rate	0.25	17.45	0.00	0.19	17.89
Water and Environmental	7.79	0.10	0.00	-3.33	4.56
Electric Hardship			Not Funded		
FFB Electric	-3.61	0.01	0.00	-0.27	-3.87
Telephone Hardship			Not Funded		
Treasury Telecommunications	0.25	0.71	0.00	0.14	1.10
FFB Telecommunications	-0.53	0.16	0.00	-2.05	-2.42
Intermediary Relending Program	27.91	1.41	0.00	-1.69	27.63
Rural Economic Development	17.16	0.01	0.00	-0.39	16.78
Rural Microenterprise	12.82	2.06	0.00	0.00	14.88
Electric Underwriting	0.00	1.39	-1.78	0.00	-0.39
Reconnect Direct Loans	13.11	22.17	0.00	-0.83	34.45
Reconnect Grant Assisted Loans	0.00	22.17	0.00	0.36	22.53
Rural Energy Savings Program	16.24	1.36	0.00	-0.35	17.25

NOTE 6: Continued

Analysis of Direct Loans

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

RURAL HOUSING PROGRAMS

Direct Community Facilities

The Direct Community Facility program has an overall downward reestimate of $(123) million. The downward reestimate was primarily due to a decrease in the principal write off assumption, which decreased from 5.56% in FY 2019 to 4.49% in FY 2020, and a decrease in actual defaults written off. In addition, the more recent cohort years also experienced a decrease in the Single Effective Rates (SER) which caused the cost of borrowing for the Agency to decrease as well. This resulted in a downward reestimate as the net present value of cash flows increased due to the lower discount rate.

Direct Single-Family Housing

The Direct Single-Family Housing program has a downward reestimate of $(138) million. The key drivers of the changes that caused the downward impact were the lag on Foreclosure, Real Estate Owned (REO) Recovery Curve, and the lag on REO. The projected lag on foreclosures decreased, which increased projected prepayments resulting in a downward impact on the total reestimate amount. The REO recovery curve increased from 3% to 4% which increased the projected recoveries, resulting in a downward impact to the total reestimate. The lag on REO increased from 23.94 months to 24.21 months which increased the months for future projections of lag on REO, which had a downward impact on the total reestimate. The FY 2019 and FY 2020 cohorts also had decreases in the SER which results in the net present value of the cash flows increasing and a subsequent downward reestimate.

RURAL UTILITIES PROGRAMS

Direct Electric Programs

The Direct FFB Electric Program had an overall upward reestimate of $1,181 million which is comprised of a $816 million upward reestimate in the FFB program, a $300 million upward reestimate in the FFB Underwriter program, and a $68 million upward reestimate in the FFB Note Extension program. One of the main drivers of the upward reestimates in all Direct Electric Programs were the modification costs that were realized in FY 2019 but provided to FFB in FY 2020 as part of an administrative solution. These modification costs were related to the implementation of the 2018 Agriculture Improvement Act language that allowed borrowers to prepay outstanding debt using Cushion of Credit balances. The negative modification cash flows decreased cash balances resulting in an upward impact to the reestimate.

Direct Water and Environmental Disposal

The Direct Water and Environmental Disposal program had an overall downward reestimate of $(867) million. The downward reestimate was primarily attributed to the updated Miscellaneous Inflows curves which are based on actual data and are used to project future cashflows from Miscellaneous Inflows. The Miscellaneous Inflows curve increased from 0.04% to 5.79% due to FY 2019 actual data from Puerto Rico Aqueduct and Sewer Authority (PRASA) debt restructure. The downward reestimate was also caused by the updated SER which primarily decreased. As the SER decreases, the cost of borrowing for the Agency decreases as well, causing a downward reestimate as the net present value of cash flows increases due to the lower discount rate.

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 2020 increased compared to the FY 2019 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2020 and FY 2019, there were $137,379 million and $133,284 million in outstanding principal (face value) and $122,200 million and $118,648 million in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2020		
Housing	$ 127,859	$ 115,036
Community Facility	1,165	1,035
Electric	147	147
Water and Environmental	94	83
Business and Industry	8,114	5,899
Total Guarantees Outstanding	**$ 137,379**	**$ 122,200**
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**

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 2020, the total liabilities increased by $908 million compared to FY 2019.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value
FY 2020	
Liability for Loan Guarantees	
Housing	$ 679
Community Facility	43
Electric	0
Water and Environmental	1
Business and Industry	395
Total Liabilities for Loan Guarantees	**$ 1,118**
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**

NOTE 6: Continued

The Agency continued to process claim payments to lenders in FY 2020 related to the Guaranteed Single-Family Housing Program, although the program experienced a small decrease for FY 2020 as compared to FY 2019.

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

Beginning Balance, Changes, and Ending Balance	**FY 2020**	**FY 2019**
Beginning Balance of the Loan Guarantee Liability	$ 210	$ 282
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	0	0
Default costs (net of recoveries)	803	595
Fees and other collections	(904)	(660)
Other subsidy costs	0	0
Total of the above subsidy expense components	(101)	(65)
Adjustments:		
Loan guarantee modifications	0	0
Fees received	681	593
Interest supplements paid	(8)	(8)
Claim payments to lenders	(410)	(496)
Interest accumulation on the liability balance	9	(12)
Loans acquired	44	92
Other	(88)	(172)
Ending balance of the loan guarantee before reestimates	337	214
Add or subtract reestimates by component:		
Interest rate reestimates	(17)	(40)
Technical/default reestimates	798	36
Total of the above reestimate components	781	(4)
Ending Balance of the Loan Guarantee Liability (Post-1991)	**$ 1,118**	**$ 210**

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 2020 and FY 2019 by loan program. Total guaranteed loan subsidy expense in FY 2020 was $680 million compared to ($69) million in FY 2019, a increase of $749 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 2020										
Housing	$ 0	$ 726	$ (859)	$ 0	$ (133)	$ 0	$ (18)	$ 827	$ 809	$ 676
Community Facility	0	2	0	0	2	0	0	(11)	(11)	(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	75	(45)	0	30	0	1	(18)	(17)	13
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 803**	**$ (904)**	**$ 0**	**$ (101)**	**$ 0**	**$ (17)**	**$ 798**	**$ 781**	**$ 680**
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)**

NOTE 6: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value increased to $23,409 million in FY 2020 from $15,985 million in FY 2019. The housing loan program experienced the largest increase.

TABLE 8: GUARANTEED LOANS DISBURSED (POST-1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2020		
Housing	$ 22,102	$ 19,892
Community Facility	53	47
Water and Environmental	20	17
Business and Industry	1,234	942
Total Guaranteed Loans Disbursed	**$ 23,409**	**$ 20,898**
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**

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 2020 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 2020	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	3.27	-3.83	0.00	-0.56
Section 538 Multi-Family Housing	3.27	-7.80	0.00	-4.53
Community Facilities	3.84	-4.35	0.00	-0.51
Business and Industry	5.89	-3.84	0.00	2.05
Water and Environmental	1.02	-0.88	0.00	0.14
Renewable Energy	5.25	-1.72	0.00	3.53
Biorefinery (Section 9003 Loan Guarantees)	19.81	-4.94	0.06	14.93

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 $809 million. The change in upward reestimates are attributed to updates to the model with the most recent economic assumptions including unemployment rates, treasury rates, and mortgage rate forecasts. The 2020 national unemployment rate forecast is downward sloping and the average unemployment rate in the next five years is forecasted to be higher than in the prior years. These forecasts in unemployment are also contributing to the five-year default forecast for the 2019 cohort to significantly increase relative to the prior year reestimate model's forecast for the same period. The increase in the five-year default forecast in the short term leads to an increase in the upward reestimate as that would signify additional costs associated with the programs.

NOTE 6: Continued

Loans Receivable

For FY 2020, Rural Development is implementing the new Loans Receivable summary table as shown below per Office of Management and Budget (OMB) Circular A-136. The table illustrates the change during the fiscal year for Loans Receivable Gross and Defaulted Guaranteed Loans Receivable.

TABLE 10: LOANS RECEIVABLE

FY 2020		
Loans Receivable Gross, Start of Year	$	93,934
Plus Loans Disbursed		9,419
Less Principal Payments Received		(4,988)
Less Foreclosed Property		0
Less Loans Written Off		(95)
Other		(475)
Loans Receivable Gross, End of Year	**$**	**97,795**
Defaulted Guaranteed Loans Receivable, Start of Year	$	303
Plus Guaranteed Payments		164
Less Principal Payments Received		(23)
Less Foreclosed Property		0
Less Loans Written Off		(83)
Other		0
Defaulted Guaranteed Loans Receivable, End of Year	**$**	**361**

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 2020						
Personal Property						
Equipment	$ 5	$ (3)	$ 2	5-20	SL	$ 25,000
Internal Use Software	212	(180)	32	5-8	SL	$ 100,000
Internal Use Software in Development	3	0	3		SL	$ 100,000
Total	**$ 220**	**$ (183)**	**$ 37**			

Net Property Plant and Equipment	
Balance Beginning of Year	**$ 41**
Capitalized Acquisitions	4
Disposition/Revaluations	0
Depreciation Expense	(8)
Balance at the End of Year	**37**

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**			

Net Property Plant and Equipment	
Balance Beginning of Year	$ **40**
Capitalized Acquisitions	7
Disposition/Revaluations	0
Depreciation Expense	(6)
Balance at the End of Year	**41**

[3] Range of Service Life [4] SL - Straight Line

NOTE 8: OTHER ASSETS

		FY 2020		FY 2019
Intragovernmental				
Advances to Others	$	0	$	0
Other Assets		0		0
Total Intragovernmental		**0**		**0**
With the Public				
Investment in Loan Asset Sale Trust [5]		0		35
Other		0		2
Total Other Assets – Non-Governmental		**0**		**37**
Total Other Assets	**$**	**0**	**$**	**37**

[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) maintained investments in the Class C securities of the Community Program, Loan Trust, 1987A, and the Rural Housing Trust, 1987-1, respectively. These investments represented a residual security in the respective Trust and entitled Rural Development to residual cash flows resulting from loan repayments not required to pay trust security holders or to fund required reserves. Rural Development retained the RDIF and RHIF Class C investments until FY 2020. In FY 2020 Rural Development upon further analysis determined the residual cash flows resulting from loan repayments satisfied the original investments and adjustments to the RDIF and RHIF Class C investments were made accordingly.

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NOTE 9: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2020	FY 2019
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 5	$ 5
Total Intragovernmental	**5**	**5**
With the Public		
Federal Employee and Veteran Benefits	27	31
Unfunded Annual Leave	39	35
Contingent Liability	65	69
Other Liability	71	71
Total With the Public	**202**	**206**
Total Liabilities Not Covered by Budgetary Resources[6]	**207**	**211**
Total Liabilities Covered by Budgetary Resources	109,205	106,177
Total Liabilities Not Requiring Budgetary Resources[7]	(652)	(16)
Total Liabilities	**$ 108,760**	**$ 106,372**

[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 2020						
Intragovernmental Debt						
Debt to Treasury	$	51,306	$	1,206	$	52,512
Debt to the Federal Financing Bank		46,314		364		46,678
Total Intragovernmental Debt	**$**	**97,620**		**1,570**		**99,190**
Agency Debt						
Held by the Public		0		0		0
Notes Payable		0		0		0
Total Agency Debt		0		0		0
Total Debt	**$**	**97,620**		**1,570**		**99,190**
FY 2019						
Intragovernmental Debt						
Debt to Treasury	$	46,706	$	4,600	$	51,306
Debt to the Federal Financing Bank		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**

NOTE 10: Continued

		FY 2020		FY 2019
Classification of Debt				
Intragovernmental Debt	$	99,190	$	97,620
Debt Held by the Public		0		0
Total Debt	**$**	**99,190**	**$**	**97,620**

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 2020		FY 2019
Interest Payable, Federal				
Federal Financing Bank	$	26	$	26
Total	**$**	**26**	**$**	**26**

These interest payable amounts associated with borrowings from Treasury and the FFB are included in the table at the beginning of this note. Interest payments are due to FFB on September 30 each year.

		FY 2020		FY 2019
Interest Expense, Federal				
Federal Financing Bank	$	1,462	$	1,442
Treasury		1,876		1,859
Total	**$**	**3,338**	**$**	**3,301**

NOTE 11: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2020			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 14	$ 14
Employer Contributions & Payroll Taxes Payable	0	6	6
Unfunded FECA Liability	3	2	5
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**$ 3**	**$ 21**	**$ 24**
Other Accrued Liabilities	0	49	49
Accrued Funded Payroll & Leave	0	21	21
Unfunded Annual Leave	0	39	39
Liability for Advances & Prepayments	0	(651)	(651)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	65	65
Other Liabilities	25	46	71
Total Other Liabilities	**$ 28**	**$ (410)**	**$ (382)**
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**

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, 2020, and 2019, there were approximately $5,401 million and $3,703 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 2020						
Legal Contingencies						
Probable	$	65	$	65	$	65
Reasonably Possible	$	0	$	0	$	0
FY 2019						
Legal Contingencies						
Probable	$	69	$	69	$	69
Reasonably Possible	$	0	$	0	$	0

The following contingency-related lawsuits are reportable for the fiscal year ending on September 30, 2020:

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 2020, 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.

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.

NOTE 13: SUPPORTING SCHEDULE FOR STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2020					
Gross Costs:					
Borrowing Interest Expense	$ 718	$ 20	$ 873	$ 1,727	$ 3,338
Grants	6	1,254	754	0	2,014
Loan Cost Subsidies	658	12	(1,071)	1,321	920
Other	17	30	121	490	658
Total Gross Costs	**1,399**	**1,316**	**677**	**3,538**	**6,930**
Less:					
Earned Revenues	732	20	900	1,949	3,601
Net Cost of Operations	**$ 667**	**$ 1,296**	**$ (223)**	**$ 1,589**	**$ 3,329**
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 Cost	**1,203**	**1,312**	**1,909**	**2,180**	**6,604**
Less:					
Earned Revenue	719	17	878	2,076	3,690
Net Cost of Operations	**$ 484**	**$ 1,295**	**$ 1,031**	**$ 104**	**$ 2,914**

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 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. 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, 2020, and 2019, the amount of available borrowing authority was $25,261 million and $24,621 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 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 2022 Budget of the United States Government, with the "Actual" columns completed for FY 2020, 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 2021. The Budget will be available from https://www.whitehouse.gov/omb/budget.

The 2021 Budget of the United States Government, with the "Actual" columns completed for FY 2019, was published in February of 2020 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 2019, 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 2019 Combined Statement of Budgetary Resources and the President's Budget					
Applicable Line from SBR	**Amount from SBR**	**Applicable Line from President's Budget**	**Amount from President's Budget**	**Legitimate Differences**	**Reporting Errors**
Total Budgetary Resources (Line 1910)	$ 40,401	Total Budgetary Resources Available for Obligation	$ 40,321	$ 80 E 79 A 1	None
New Obligations and Upward Adjustments (Line 2190)	$ 23,204	Total New Obligations	$ 23,198	$ 6 E 3 R 3	None
Distributed Offsetting Receipts (Line 4200)	$ (1,760)	Treasury Combined Statement (Receipts by Department)	$ (1,760)	$ 0	None
Net Outlays (Line 4190)	$ 6,795	Outlays	$ 6,798	$ (3) R (3)	None

<u>Legend</u>
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 2020			
Paid	$ 0	$ 0	$ 0
Unpaid	1,487	30,749	32,236
Total Undelivered Orders	**$ 1,487**	**$ 30,749**	**$ 32,236**
FY 2019			
Paid	$ 0	$ 0	$ 0
Unpaid	1,386	28,454	29,840
Total Undelivered Orders	**$ 1,386**	**$ 28,454**	**$ 29,840**

NOTE 21: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2020	FY 2019
Sources of Collections		
Recoveries and Refunds	$ 4	$ 8
Total Revenue Collected	**4**	**8**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	(4)	(8)
Total Disposition of Revenue	**(4)**	**(8)**
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 Reconciliation of Net Cost to Net Outlays 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 2020 and FY 2019 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 2020 was $2,452 million and for FY 2019 $2,024 million. The increase represents reestimate accruals that will not result in an outlay until FY 2021 from the budgetary accounts. The increase in Accounts Receivable is also connected to reestimate accruals for upward reestimates that will result in an outlay in FY 2021 in the program accounts. The Loans Receivable increased in FY 2020 mostly due to changes in the Cushion of Credit balances which offset the Loans Receivable in the Rural Electric Liquidating Account. As the Cushion of Credit balances are used to repay loans, the overall Cushion of Credit balance decreases, therefore creating the impression that the loans receivable is increasing. Accounts Payable increased in FY 2020 mostly due to crosswalk changes for Subsidy Payable to Financing Account. These balances were previously reflected in Other Liabilities and Year End Credit Reform Subsidy but have been moved to Accounts Payable per Office of the Chief Financial Officer (OCFO). The Transfers Out (In) without Reimbursement increased in FY 2020 compared to FY 2019 due to increases in downward reestimates and negative subsidy.

Additionally, in FY 2020 United States Department of Agriculture (USDA), OCFO made changes to the crosswalks for the Reconciliation of the Net Cost to Net Outlays footnote. The Non-Budgetary Financing Accounts were removed from the note resulting in a large change across the board for the note. Furthermore, Subsidy Payable to Financing Account was reclassified from Year End Credit Reform Subsidy line and Other Liabilities line for beginning balances to the Accounts Payable line on the note.

	FY 2020 Intergovernmental	FY 2020 With the Public	FY 2019 Intergovernmental	FY 2019 With the Public
Net Operating Cost (SNC)	**$ 278**	**$ 3,051**	**$ 341**	**$ 2,573**
Components of Net Operating Cost Not Part of Budgetary Outlays				
Property, plant and equipment depreciation	$ 0	$ (8)	$ 0	$ (7)
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	2,452	0	2,024	0
Other	0	4	0	6
Increase/decrease in assets				
Accounts Receivable	529	0	330	0
Loans Receivable	0	3,352	0	907
Other Assets	0	0	0	0
Investments	0	0	0	0
Increase/decrease in liabilities				
Accounts Payable	(1,180)	449	(197)	(7)
Salaries and Benefits	(2)	(5)	0	(2)
Insurance and Guarantee Program Liabilities	0	0	0	0
Environmental and disposal liabilities	0	0	0	0
Other Liabilities	3	7	4	418
Debt	0	0	0	0
Credit Reform Subsidy reestimates	0	0	0	0
Contingent Liabilities	0	0	0	0
Other Liabilities	3	7	4	418
Other Financing Sources				
Federal Employee Retirement Benefit Costs	(40)	0	(133)	0
Other Imputed Finance	0	0	0	0
Total Components of Net Cost of Operations Not Part of Budget Outlays	**1,762**	**3,799**	**2,028**	**1,315**
Effect of prior year agencies credit reform subsidy reestimates	0	0	0	0
Acquisition of capital assets	0	0	0	2
Acquisition of inventory	0	0	0	0
Acquisition of other assets	0	0	0	0
Debt and Equity securities	0	0	0	0
Transfers out (in) without reimbursement	(2,461)	0	(2,090)	0
Other	0	(2)	0	(3)
Actual Repayment of Debt	0	0	0	0
Resources Realized from Borrowing Authority	0	0	0	0
Borrowing Authority Converted to Cash	0	0	0	0
Other	0	(2)	0	(3)
Total Components of Net Outlays that are Not Part of Net Cost	**(2,461)**	**(2)**	**(2,090)**	**(1)**
Net Outlays	**$ (421)**	**$ 6,848**	**$ 279**	**$ 3,887**
Related Amounts on the Statement of Budgetary Resources				
Outlays, Net		$ **8,351**		$ **5,926**
Distributed Offsetting Receipts (SBR 4200)		$ **(1,924)**		$ **(1,760)**
Agency Outlays, Net (SBR 4210)		$ **6,427**		$ **4,166**
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, 2020 and 2019

	FY 2020	FY 2019
Fiduciary Net Assets, beginning of year	**$ 123**	**$ 124**
Contributions	461	439
Disbursements	469	440
Increase/Decrease in Fiduciary Fund Balances	**(8)**	**(1)**
Fiduciary Net Assets, end of year	**$ 115**	**$ 123**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2020 and 2019

	FY 2020	FY 2019
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 30	$ 31
Investments in Treasury Securities – Short Term	85	92
Investments in Treasury Securities – Long Term	0	0
Total Fiduciary Net Assets	**$ 115**	**$ 123**

NOTE 24: COVID-19 ACTIVITY

The Office of Management Budget (OMB) Circular A-136 guidance for FY 2020 requires agencies disclose the additional supplemental appropriations and the financial statement impacts on the agency's financial information.

The below table summarizes Rural Development's supplemental appropriations received as part of Public Law 116-136 Coronavirus Aid, Relief, and Security Act (CARES Act) as a response to COVID-19 and their impacts on Rural Development's financial data.

Distance Learning, Telemedicine and Broadband Program received a total of $125 million. The program provides distance learning and telemedicine in rural areas. As of September 30, 2020, no grants have been issued to the grantees. The outlays represent funding appropriated for Rural Development's Salaries and Expenses account as part of administrative costs.

Rural Business Program received a total of $21 million. The funding in this account represents subsidy costs associated with Rural Developments guaranteed loans specific to this program. The program provides capital, training, education and entrepreneurial skills in rural areas. As of September 30, 2020, $326 million of guaranteed loans were obligated and guaranteed by Rural Development in this program of which $50 million was disbursed by the lenders. The outlays for this account represent part of the subsidy costs associated with the disbursed loans by the lenders and the amount appropriated for Salaries and Expenses account as part of administrative costs.

Treasury Account Symbol	Account Name		Total Appropriation	Total Obligation	Total Amounts Remaining to be Obligated	Total Outlays
12X1232	Distance Learning, Telemedicine and Broadband Program (Grant)	$	25	1	24	1
12 20/21 1232	Distance Learning, Telemedicine and Broadband Program (Grant)	$	100	88	12	3
12 20/21 1902	Rural Business Program Account (Subsidy)	$	21	8	13	2

NOTE 24: Continued

Account Name Treasury Account Symbol	Distance Learning, Telemedicine and Broadband Program 12X1232	Distance Learning, Telemedicine and Broadband Program 12 20/21 1232	Rural Business Program Account 12 20/21 1902
Intragovernmental			
Fund Balance with Treasury	24	97	19
Total Intragovernmental Assets	**$ 24**	**$ 97**	**$ 19**
Total Assets	**$ 24**	**$ 97**	**$ 19**
Unexpended Appropriations	24	97	19
Total Liabilities and Net Position	**$ 24**	**$ 97**	**$ 19**
Gross Program Costs	1	3	2
Total Cost of Operations	**$ 1**	**$ 3**	**$ 2**
Financing Sources	25	100	21
Net Cost of Operations	(1)	(3)	(2)
Change in Net Position	**$ 24**	**$ 97**	**$ 19**
Net Position End of Period	**$ 24**	**$ 97**	**$ 19**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 490	$ 1,618	$ 399	$ 650
Recoveries of Prior Year Unpaid Obligations	74	412	64	402
Other Changes in Unobligated Balance	(23)	(1,665)	(49)	(648)
Unobligated Balance from Prior Year Budget Authority, Net	541	365	414	404
Appropriations	1,252	1	1,225	0
Borrowing Authority (Notes 15 and 16)	0	2,749	0	2,572
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	15	2,812	22	1,621
Total Budgetary Resources	**1,808**	**5,927**	**1,661**	**4,597**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,417	3,883	1,171	2,978
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	387	1,847	450	1,215
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	4	197	40	404
Unexpired Unobligated Balance, End of Year	391	2,044	490	1,619
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	391	2,044	490	1,619
Total Budgetary Resources	**1,808**	**5,927**	**1,661**	**4,597**
Outlays, Net:				
Outlays, Net	1,073	0	906	0
Distributed Offsetting Receipts	(279)	0	(239)	0
Agency Outlays, Net	**$ 794**	**$ 0**	**$ 667**	**$ 0**
Disbursements, Net		**$ 1,018**		**$ 1,445**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 5,652	$ 4,654	$ 7,269	$ 2,587
Recoveries of Prior Year Unpaid Obligations	3	193	0	1,283
Other Changes in Unobligated Balance	(43)	(821)	(117)	(1,277)
Unobligated Balance from Prior Year Budget Authority, Net	5,612	4,026	7,152	2,593
Appropriations	726	0	1,948	84
Borrowing Authority (Notes 15 and 16)	0	6,766	0	6,585
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	50	3,003	190	4,050
Total Budgetary Resources	**6,388**	**13,795**	**9,290**	**13,312**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	4,511	10,224	3,638	8,658
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	740	3,571	1,830	4,654
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	1,130	0	3,819	0
Unexpired Unobligated Balance, End of Year	1,870	3,571	5,649	4,654
Expired Unobligated Balance, End of Year	7	0	3	0
Total Unobligated Balance, End of Year	1,877	3,571	5,652	4,654
Total Budgetary Resources	**6,388**	**13,795**	**9,290**	**13,312**
Outlays, Net:				
Outlays, Net	4,387	0	3,284	0
Distributed Offsetting Receipts	(1,325)	0	(885)	0
Agency Outlays, Net	**$ 3,062**	**$ 0**	**$ 2,399**	**$ 0**
Disbursements, Net		**$ 1,325**		**$ (859)**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 27	$ 0	$ 1
Recoveries of Prior Year Unpaid Obligations	0	0	0	0
Other Changes in Unobligated Balance	0	(27)	0	(1)
Unobligated Balance from Prior Year Budget Authority, Net	0	0	0	0
Appropriations	3	0	12	0
Borrowing Authority (Notes 15 and 16)	0	0	0	2
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	22	0	31
Total Budgetary Resources	**3**	**22**	**12**	**33**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	3	7	12	6
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	0	9	0	27
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	6	0	0
Unexpired Unobligated Balance, End of Year	0	15	0	27
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	0	15	0	27
Total Budgetary Resources	**3**	**22**	**12**	**33**
Outlays, Net:				
Outlays, Net	3	0	12	0
Distributed Offsetting Receipts	(2)	0	(1)	0
Agency Outlays, Net	**$ 1**	**$ 0**	**$ 11**	**$ 0**
Disbursements, Net		**$ (18)**		**$ (26)**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 205	$ 2,232	$ 136	$ 1,544
Recoveries of Prior Year Unpaid Obligations	27	114	8	79
Other Changes in Unobligated Balance	(171)	(1,326)	(72)	(354)
Unobligated Balance from Prior Year Budget Authority, Net	61	1,020	72	1,269
Appropriations	1,754	0	687	0
Borrowing Authority (Notes 15 and 16)	0	1,332	0	1,623
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	108	3,824	176	2,592
Total Budgetary Resources	**1,923**	**6,176**	**935**	**5,484**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,784	2,721	730	3,252
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	116	3,455	164	2,232
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	116	3,455	164	2,232
Expired Unobligated Balance, End of Year	23	0	41	0
Total Unobligated Balance, End of Year	139	3,455	205	2,232
Total Budgetary Resources	**1,923**	**6,176**	**935**	**5,484**
Outlays, Net:				
Outlays, Net	1,355	0	221	0
Distributed Offsetting Receipts	(257)	0	(591)	0
Agency Outlays, Net	**$ 1,098**	**$ 0**	**$ (370)**	**$ 0**
Disbursements, Net		**$ (1,072)**		**$ 483**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 58	$ 0	$ 65	$ 0
Recoveries of Prior Year Unpaid Obligations	3	0	2	0
Other Changes in Unobligated Balance	2	0	(1)	0
Unobligated Balance from Prior Year Budget Authority, Net	63	0	66	0
Appropriations	1,440	0	1,390	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	**1,503**	**0**	**1,456**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,441	0	1,398	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	49	0	47	0
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	49	0	47	0
Expired Unobligated Balance, End of Year	13	0	11	0
Total Unobligated Balance, End of Year	62	0	58	0
Total Budgetary Resources	**1,503**	**0**	**1,456**	**0**
Outlays, Net:				
Outlays, Net	1,207	0	1,241	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,207**	**$ 0**	**$ 1,241**	**$ 0**
Disbursements, Net		**$ 0**		**$ 0**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 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	$ 16	$ 0	$ 8	$ 0
Recoveries of Prior Year Unpaid Obligations	3	0	2	0
Other Changes in Unobligated Balance	0	0	0	0
Unobligated Balance from Prior Year Budget Authority, Net	19	0	10	0
Appropriations	78	0	75	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	**97**	**0**	**85**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	80	0	69	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	17	0	16	0
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	17	0	16	0
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	17	0	16	0
Total Budgetary Resources	**97**	**0**	**85**	**0**
Outlays, Net:				
Outlays, Net	69	0	60	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 69**	**$ 0**	**$ 60**	**$ 0**
Disbursements, Net		**$ 0**		**$ 0**

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

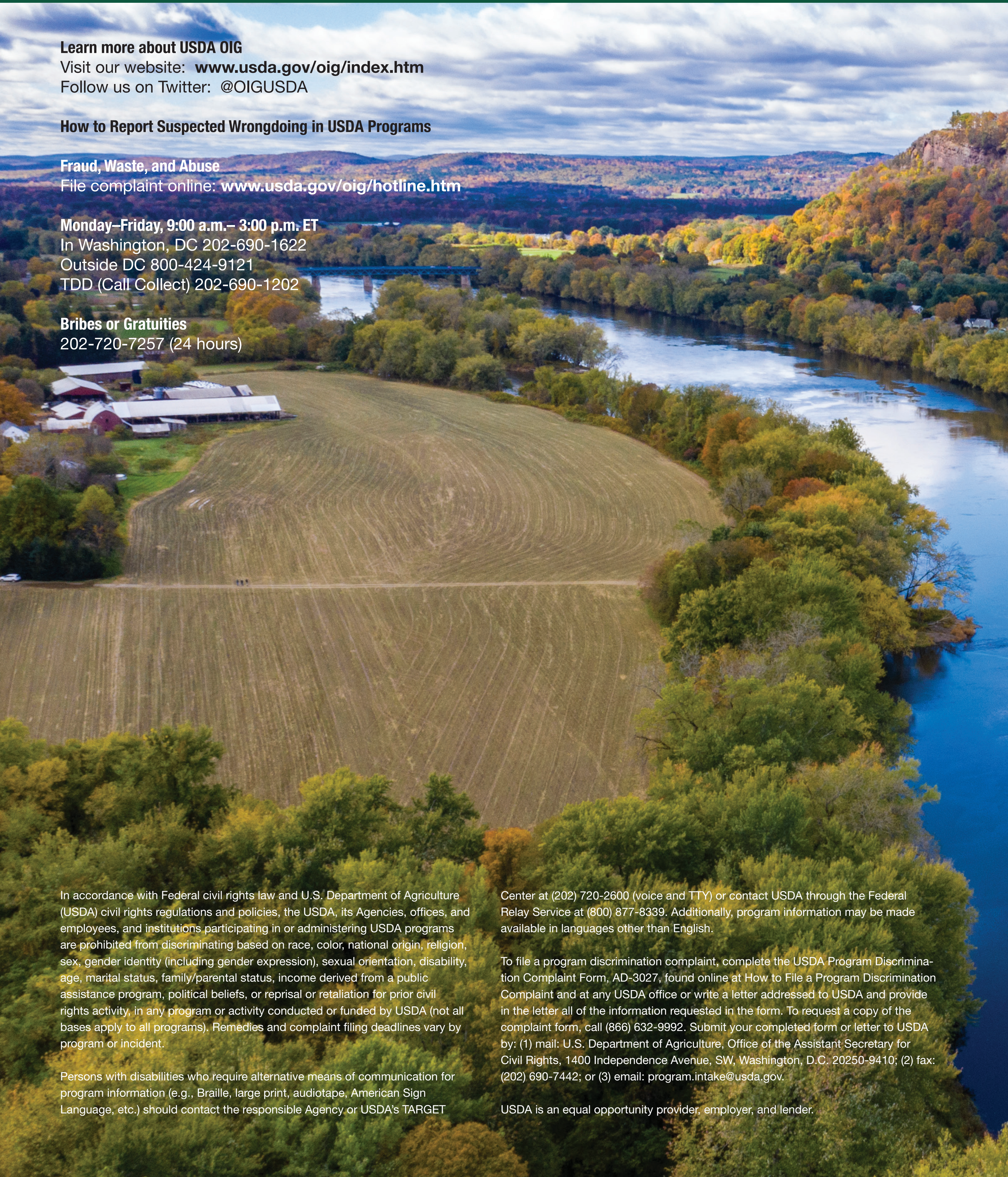
	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	**Salaries & Expense**	**Salaries & Expense**	**Salaries & Expense**
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 31	$ 0	$ 33	$ 0
Recoveries of Prior Year Unpaid Obligations	11	0	8	0
Other Changes in Unobligated Balance	(3)	0	(7)	0
Unobligated Balance from Prior Year Budget Authority, Net	39	0	34	0
Appropriations	266	0	240	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	487	0	487	0
Total Budgetary Resources	**792**	**0**	**761**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	747	0	730	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	28	0	19	0
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	28	0	19	0
Expired Unobligated Balance, End of Year	17	0	12	0
Total Unobligated Balance, End of Year	45	0	31	0
Total Budgetary Resources	**792**	**0**	**761**	**0**
Outlays, Net:				
Outlays, Net	259	0	199	0
Distributed Offsetting Receipts	(1)	0	(4)	0
Agency Outlays, Net	**$ 258**	**$ 0**	**$ 195**	**$ 0**
Disbursements, Net		**$ 0**		**$ 0**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,748	$ 466	$ 1,385	$ 197
Recoveries of Prior Year Unpaid Obligations	22	27	67	9
Other Changes in Unobligated Balance	(2)	(282)	(2)	(60)
Unobligated Balance from Prior Year Budget Authority, Net	1,768	211	1,450	146
Appropriations	713	0	428	0
Borrowing Authority (Notes 15 and 16)	0	362	0	131
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	158	365	235	385
Total Budgetary Resources	**2,639**	**938**	**2,113**	**662**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	1,333	562	365	197
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	1,243	376	1,499	406
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	53	0	240	59
Unexpired Unobligated Balance, End of Year	1,296	376	1,739	465
Expired Unobligated Balance, End of Year	10	0	9	0
Total Unobligated Balance, End of Year	1,306	376	1,748	465
Total Budgetary Resources	**2,639**	**938**	**2,113**	**662**
Outlays, Net:				
Outlays, Net	(2)	0	3	0
Distributed Offsetting Receipts	(60)	0	(40)	0
Agency Outlays, Net	**$ (62)**	**$ 0**	**$ (37)**	**$ 0**
Disbursements, Net		**$ (100)**		**$ (174)**

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

	2020 Budgetary	2020 Non-Budgetary Credit Program Financing Accounts	2019 Budgetary	2019 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 8,200	$ 8,997	$ 9,295	$ 4,979
Recoveries of Prior Year Unpaid Obligations	143	746	151	1,773
Other Changes in Unobligated Balance	(240)	(4,121)	(248)	(2,340)
Unobligated Balance from Prior Year Budget Authority, Net	8,103	5,622	9,198	4,412
Appropriations	6,232	1	6,005	84
Borrowing Authority (Notes 15 and 16)	0	11,209	0	10,913
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	818	10,026	1,110	8,679
Total Budgetary Resources	**15,153**	**26,858**	**16,313**	**24,088**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments	11,316	17,397	8,113	15,091
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	2,580	9,258	4,025	8,534
Exempt from Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	1,187	203	4,099	463
Unexpired Unobligated Balance, End of Year	3,767	9,461	8,124	8,997
Expired Unobligated Balance, End of Year	70	0	76	0
Total Unobligated Balance, End of Year	3,837	9,461	8,200	8,997
Total Budgetary Resources	**15,153**	**26,858**	**16,313**	**24,088**
Outlays, Net				
Outlays, Net	8,351	0	5,926	0
Distributed Offsetting Receipts	(1,924)	0	(1,760)	0
Agency Outlays, Net	**$ 6,427**	**$ 0**	**$ 4,166**	**$ 0**
Disbursements, Net		**$ 1,153**		**$ 869**



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