United States Department of Agriculture

Rural Development's Financial Statements for Fiscal Years 2017 and 2016

Audit Report 85401-0007-11

November 2017

OFFICE OF INSPECTOR GENERAL

Rural Development's Financial Statements for Fiscal Years 2017 and 2016

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OIG audited the consolidated financial statements of Rural Development for fiscal years 2017 and 2016.

OBJECTIVE

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

REVIEWED

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

RECOMMENDS

This report does not contain recommendations.

WHAT OIG FOUND

Rural Development received an unmodified opinion for the Office of the Inspector General's audit of Rural Development's consolidated financial statements. We determined that the agency's financial statements for the 2017 and 2016 fiscal years present Rural Development's financial position as of September 30, 2017 and 2016 fairly, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

Our consideration of Rural Development's internal control over financial reporting identified no material weaknesses. However, our consideration of compliance with laws and regulations noted noncompliances with the Digital Accountability and Transparency Act of 2014, the Debt Collection and Improvement Act of 1996, and the Fair Credit Reporting Act.

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

DATE: November 9, 2017

AUDIT NUMBER: 85401-0007-11

TO: Anne Hazlett
Assistant to the Secretary for Rural Development

ATTN: Roger Glendenning
Chief Financial Officer
Rural Development

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2017 and 2016

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2017, and 2016. The report contains an unmodified opinion on the financial statements, as well as the results of our assessment of Rural Development's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit B.

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

Anne Hazlett
Assistant to the Secretary
 for Rural Development

The Department of Agriculture's Office of Inspector General (OIG) audited the consolidated financial statements of Rural Development for fiscal years 2017 and 2016. We also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct effect on the determination of material financial statement amounts and disclosures.

Exhibit A of this report provides the status of the prior years' internal control weaknesses and noncompliance with laws and regulations. Exhibit B presents Rural Development's response in its entirety.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rural Development, which are comprised of the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost and changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 17-03, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 17-03 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, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Rural Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Development's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of Rural Development's internal control or on management's assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in 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 17-03 requires us to describe significant deficiencies and material weaknesses identified during our audits, 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 audits.

Report on Compliance and Other Matters

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

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

OIG identified Rural Development's noncompliance with two provisions of the Digital Accountability and Transparency Act of 2014 (DATA Act). Rural Development did not submit fiscal year 2017 second quarter data by the required reporting date and reported non Single Family Housing loan programs at 180 days past due, instead of the required 120 days. These noncompliances are discussed in more detail under Finding 1 of the "Findings and Recommendation," Section 1 of this report. Rural Development continues to be noncompliant with the Debt Collection and Improvement Act of 1996 (DCIA) and the Fair Credit Reporting Act (FCRA). See Exhibit A for the status of this noncompliance.

Management's Responsibility for Internal Control and Compliance

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

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether Rural Development's financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to a risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Rural Development. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response

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

Status of Prior Years' Internal Control Weakness and Noncompliance Issues

We reviewed the status of Rural Development's corrective actions with respect to the prior year's Independent Auditor's Report, dated November 7, 2016. The status is presented in Exhibit A.

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters

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

Gil H. Harden

Gil H. Harden
Assistant Inspector General for Audit
Washington, D.C.
November 8, 2017

Findings and Recommendation

Section 1: Noncompliance with Laws and Regulations

Finding 1: Lack of Compliance with the DATA Act

The DATA Act was signed into law on May 9, 2014, through Public Law 113-101. DATA Act provisions expanded the reporting requirements pursuant to the Federal Funding Accountability and Transparency Act of 2006[1] with these changes effective no later than May 9, 2017. The changes required agencies to submit to Treasury Federal contract, loan, and grant spending data for Federal programs, and Treasury guidance[2] established an April 30, 2017 submission deadline for files containing this 2017 second quarter data. OIG issued audit report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act,* on November 1, 2017, and identified that Department of Agriculture (USDA) submitted and certified second quarter files to Treasury's broker that were incomplete and of insufficient quality, thereby not complying with the DATA Act requirements. The incomplete files, in part, were due to Rural Development not submitting the second quarter files by April 30, 2017, to the Office of the Chief Financial Officer (OCFO) for processing to the Department of the Treasury (Treasury). Rural Development officials stated that a lack of funding hampered their ability to address the mandated requirements. Rural Development's inability to timely provide OCFO with its second quarter data files contributed to the Department's incomplete data submission, thus limiting the ability of taxpayers and policy makers to track Federal spending effectively.

Another provision of the DATA Act amended the U.S. Code[3] and required agencies to refer valid, delinquent non-tax debts to the Treasury for the purpose of administrative offset once such debts were aged 120 days versus the previous 180-day requirement. The June 30, 2017, assessment of internal controls over financial reporting performed by Rural Development as required by OMB Circular A-123[4] revealed the design of the debt collection process for non Single Family Housing loan programs was not effective to ensure delinquent debt submissions to Treasury within the 120 day timeline. Delayed debt submission hinders collection efforts by Treasury and decreases the possibility of fulfilling outstanding debts.

Rural Development's assessment of internal controls over financial reporting and OIG's audit report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act,* issued on November 1, 2017, resulted in recommendations to address these occurrences of noncompliance with the DATA Act. Therefore, we are making no further recommendations in this report.

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[1] Federal Funding Accountability and Transparency Act of 2006, Public Law 109-282.
[2] DATA Act Schema, *DATA Act Practices and Procedures, Volume 1.02*, December 21, 2016.
[3] Section 3716 (C) (6) of Title 31 of the U.S. Code.
[4] OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix A, "Internal Control Over Financial Reporting."

Abbreviations

DATA Act .... Digital Accountability and Transparency Act of 2014
DCIA .... Debt Collection and Improvement Act of 1996
FCRA .... Fair Credit Reporting Act
FFMIA .... Federal Financial Management Improvement Act of 1996
FMFIA .... Federal Managers' Financial Integrity Act of 1982
MD&A .... Management's Discussion and Analysis
OIG .... Office of Inspector General
OCFO.......................... Office of the Chief Financial Officer
OMB .... Office of Management and Budget
RSI .... Required Supplementary Information
U.S. .... United States of America
USDA.......................... Department of Agriculture

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

Report 85401-0006-11, Rural Development's Financial Statements for Fiscal Years 2016 and 2015, dated November 7, 2016.

Reported Significant Deficiency

Rural Development's controls over the testing of new credit reform models need improvement.

Status

The recommendation remains open, with four of the six tasks completed and an estimated completion date of July 31, 2018, for the two remaining tasks.

Reported Noncompliance

In Report 04601-0002-31, *Rural Development's Single Family Housing Direct Loan Program Credit Reporting*, issued March 2016, OIG identified noncompliance with DCIA and FCRA. This noncompliance was carried forward as a noncompliance in the Compliance and Other Matters portion of Report 85401-0006-11.

Status

Five of the nine recommendations remain open with an estimated completion date of June 30, 2018.

Report 85401-0005-11, Rural Development's Financial Statements for Fiscal Years 2015 and 2014, dated November 5, 2015.

Reported Material Weakness

Rural Development's models for projecting cash flows for future loan performance relied on weighted averages of historical loan performance data, which did not reasonably predict future cash flows for programs with significant volatility.

Status

The recommendation remains open, with 12 of the 15 actions completed and an estimated completion date of August 31, 2018.

Exhibit B: Agency's Response

USDA

United States Department of Agriculture

Rural Development

Office of the
Under Secretary

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November 8, 2017

TO: Ms. Sony Brown
Acting Director of Financial Audit Operations
Office of the Inspector General
Financial & IT Operations/Audit
8930 Ward Parkway, Room 4016
Kansas City, Missouri 64114

FROM: Anne Hazlett
Assistant to the Secretary
for Rural Development

Anne Hazlett

Roger Glendenning
Chief Financial Officer

Roger Glendenning

SUBJECT: Response to Draft Audit Report on Rural Development's
Fiscal Year 2017 Financial Statements

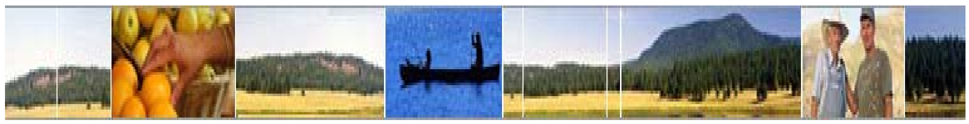
We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2017 Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree with their contents.

Rural Development will develop a plan of action to address the finding reported in the draft audit report related to the noncompliance with the Digital Accountability and Transparency Act of 2014.

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

RURAL DEVELOPMENT'S
FISCAL YEARS 2017 and 2016
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT



Fiscal Years
2017 and 2016

Financial Statements

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

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2017 AND 2016

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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 (RD) mission area of the United States Department of Agriculture (USDA).

Mission Statement

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

Core Values

Ensure RD programs are delivered efficiently, effectively, and 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 Housing Service (RHS), Rural Utilities Service (RUS), and Rural Business-Cooperative Service (RBS). Rural Development programs are delivered through the National Office, state offices, and a network of field offices. The mission area is supported by various internal organizations that provide administrative, accounting, budget, and loan servicing support for all programs.

Rural Development Programs Performance

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

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2017 than in FY 2016. There was an increase in the direct portfolio from $90.6 billion to $90.9 billion and an increase in the guaranteed portfolio from $109.2 billion to $114.4 billion.

Total Loan Portfolio as of September 30, 2017 FY's 2015 Through 2017 (Dollars in Billions)			
	FY 2015	**FY 2016**	**FY 2017**
Direct Loans			
Single Family Housing	$14.8	$14.6	$14.3
Multi-Family Housing	11.9	10.5	10.4
Community Facilities	5.6	6.3	7.5
Water & Environmental	12.6	12.6	12.6
Electric	43.1	41.8	41.7
Telecommunications	4.2	4.0	3.6
Business Programs	0.9	0.8	0.8
Total Direct	93.1	90.6	90.9
Guaranteed Loans			
Single/Multi-Family Housing	$101.2	$103.3	$108.3
Community Facilities	1.1	1.1	1.0
Water & Environmental	0.1	0.1	0.1
Electric	0.2	0.2	0.2
Business Programs	4.5	4.5	4.8
Total Guaranteed	107.1	109.2	114.4
Total Loan Portfolio	**$200.2**	**$199.8**	**$205.3**

Rural Development Programs

RURAL HOUSING SERVICE

Housing and community facilities programs improve rural prosperity and economic development of rural America. They 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.

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

The following chart shows key performance indicators, targets and results for Housing and Community Facilities for FY 2017.

HOUSING AND COMMUNITY FACILITIES PEFORMANCE SCORECARD FOR FY 2017			
Single Family Housing (SFH)	FY 2017 Target	FY 2017 Actual	Results
Homeownership Opportunities Provided Direct Loans Guaranteed Loans	6,626 167,052	7,186 134,072	Met*
Families for Which Self-Help Homes Were Built	867	846	Unmet
Very-Low Income Families Assisted With Home Repairs Loans Grants	4,453 4,681	3,431 4,765	Unmet Exceeded
Multi-Family Housing			
Families Assisted With New/Renewed Rental Assistance Contracts	301,369	302,451	Exceeded
Leveraged Funds in New Construction and Rehabilitation	$832M	$1.17B	Exceeded
Number of Housing Vouchers	3,677	5,609	Exceeded
Units Selected for Construction or Rehabilitation	9,588	10,338	Exceeded
Units Selected for New Construction or Rehabilitation in High Poverty Areas	1,917	570	Unmet
Units Selected for New Construction or Rehabilitation Including Energy Conservation or Generation	2,358	3,978	Exceeded
Community Facilities (CF)			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	5.00%	6.39%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	3.20%	14.92%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	5.00%	12.63%	Exceeded

** A target range has been established for the SFH 502 programs. "Met" indicates the aggregate homeownership opportunities created by the Section 502 programs are within 25 percent of the actual target.*

The Self-Help Program enabled 846 very low- or low-income families to build their own homes through the self-help method, falling short of its year-end goal by 21 self-help homeownership opportunities. The difference reflected a small number of grantees that were unable to complete their grant requests ahead of the FY 2017 submission date. Those requests are now expected in FY 2018. This very important program continues to be a springboard for many homeowners and is one of the few sources of affordable new construction in rural America.

Housing repair loan obligations increased relative to FY 2016, but the program did not reach its target goals. As demand for this program is subject to multiple external factors that can vary from year-to-year, SFH also has identified administrative enhancements that can support improved metrics. As such, new program guidance published on October 5, 2017, revised 504 repair loan policy by eliminating the subjective household budget which was burdensome to complete, and replacing it with debt coverage ratios used by other loan programs. This allows for a more efficient, consistent and objective loan and grant eligibility determination process. Unnecessary inspections and property visits for minor repairs were also eliminated. These changes will reduce the paperwork burden for the public and agency. SFH will continue to streamline the loan origination process and expects to meet its repair loan goals in FY 2018.

While the number of Multi-Family Housing units selected for rehabilitation or new construction with energy generation or conservation exceeded the target, the number of units selected in high poverty areas did not meet the target. It is important to note that RD has no control over the location of projects that submit applications for rehabilitation or new construction funding, though RD will continue to prioritize both factors in its funding process as much as possible.

RURAL UTILITIES SERVICE

Utilities programs facilitate rural prosperity and economic development in rural America by providing 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.

The following chart shows key performance indicators, targets and results for Utilities for FY 2017.

UTILITIES PERFORMANCE SCORECARD FOR FY 2017			
Electric Loans – Direct Federal Financing Bank (FFB)	FY 2017 Target	FY 2017 Actual	Results
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	5.1	6.620	Exceeded
Telecommunications Loans			
Number of borrowers/subscribers receiving new or improved telecommunication services	78,000	147,057	Exceeded
Distance Learning and Telemedicine			
Number of rural counties receiving distance learning services and telemedicine facilities	380	487	Exceeded
Farm Bill Broadband			
Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	22,000	11,432	Unmet

Water and Environmental			
Population receiving new or improved services from agency-funded water and wastewater facilities or projects (millions)	1.7	2.512	Exceeded

RUS did not meet its performance goals for the Farm Bill Broadband Program. The program did increase its total number of new or improved subscribers from the previous year. The total for FY 2016 was 2,075 and for FY 2017 the total was 11,432. The target was not met since some applications were determined not to meet the program regulatory requirements and could not be processed. The 2014 Farm Bill required RUS to implement changes to the Farm Bill Broadband Loan Program. The changes have been implemented and the applications received are based on the new regulation. The procedures and process are being reviewed to find enhancements to implement in the next funding cycle.

RURAL BUSINESS-COOPERATIVE SERVICE

Business and Cooperative programs facilitate rural prosperity and economic development for rural America by providing capital for building energy efficient and competitive businesses and sustainable cooperatives that can prosper in the global marketplace. In partnership with the private sector and community-based organizations, these programs provide financial assistance and business planning services and help fund projects that create or preserve quality jobs.

The following chart shows key performance indicators, targets and results for Business and Cooperative for FY 2017.

BUSINESS AND COOPERATIVE PERFORMANCE SCORECARD FOR FY 2017

Rural Business-Cooperative Programs (Grants, Direct & Guaranteed Loans)	FY 2017 Target	FY 2017 Actual	Results
Number of jobs created or saved through USDA financing of businesses	39,764	42,765	Exceeded
B & I Guaranteed Loans			
Businesses and cooperatives assisted	439	485	Exceeded
Small Businesses assisted	260	306	Exceeded
Delinquency rate (excluding bankruptcy cases)	4.64%	3.48%	Exceeded
Renewable Energy and Efficiency (Grants and Guaranteed Loans)			
Energy generated/saved (thousands of megawatt hours)	1,500	3,479	Exceeded
Advanced Biofuels Payment Program (Payments to Biofuel Producers)			
Payments supporting production ($ millions)	15	13.79	Unmet

Payment supported production (millions of dekatherms)	40	28	Unmet
Payment supported production of transportation biofuel (million gallons)	1,500	1,623	Exceeded

The Advanced Biofuels Payment Program, payment supported production of bioenergy (millions of dekatherms), experienced a decrease in the number of participating producers. In addition, the decline in dekatherms supported is largely due to reduced production of wood pellets.

Future Opportunities and Challenges

USDA Rural Development is a primary Federal agency responsible for creating opportunities and facilitating rural prosperity and economic development improving the quality of life in rural areas. Rural Development investments nurture rural prosperity to fuel the national economy.

Economic conditions in many rural areas remain challenging. Many small towns lack the infrastructure needed to sustain prosperity. Transportation options, healthcare facilities, and access to reliable and affordable high-speed internet will help these areas in their quest to become desireable communities in which to live and do business. Many of these rural areas need tools to tackle the opioid epidemic which causes devastating effects on the families and rural communities. Lastly, in August and September 2017, states/territories including Texas, Florida, Georgia, Puerto Rico, and the U.S. Virgin Islands were devastated by Hurricane Harvey, Irma, and Maria. Residences and infrastructure in these regions were destroyed, and the government identified large parts of these regions as federally-declared disaster areas.

Robust, modern infrastructure is a necessity, not an amenity, for vibrancy in rural communities. With that, USDA Rural Development will partner with states, local communities, and the private sector to invest in infrastructure to support rural prosperity, innovation and entrepreneurial activity. Recognizing the importance of partnerships and coordination, Secretary Perdue led the Interagency Task Force on Agriculture and Rural Prosperity that has harnessed over 20 federal departments and agencies to work together on key issues which are shaping rural America including quality of life, workforce development, innovation and economic opportunity. With that foundation, Rural Development will foster and implement multi-agency, multi-jurisdictional, and multi-sectoral activities to benefit rural communities. To enable such innovation, Secretary Perdue has created a Rural Development Innovation Center within Rural Development. Led by an Innovation Officer, this team will enable Rural Development to improve the delivery of services and programs, thereby making its tools even more effective for building prosperity now and for generations to come.

Moreover, Rural Development must manage massive amounts of data associated with its many programs and operations. Continued effective management of its Information Technology (IT) projects is critical to ensuring secure, modern systems are in place to support program operations and to process resulting program data.

To better assess mission area risks and develop strategies to address them, Rural Development established an Office of the Chief Risk Officer (OCRO) in FY 2017. A Chief Risk Officer (CRO) position was established to provide leadership for enterprise risk management activities. The CRO is responsible for providing leadership and facilitation of the flow of information throughout and across the mission area so that agency leadership gains earlier awareness of major risks and opportunities; analysis and guidance on potential budgetary and financial issues that may impair Rural Development's ability to carry out its mission effectively; provision of program evaluation capabilities to supplement those of RD's program agencies to improve the understanding of the performance and programmatic management issues of senior leaders; and proactive identification of the potential risks of new initiatives and alternate business practices to support innovation and enhanced mission performance.

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.

RD Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA and in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, for the period ended September 30, 2017. Based on the results of the evaluations, Rural Development provides reasonable assurance that internal controls are operating effectively, except for the non-compliances 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. Such a weakness may significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements, significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

In FY 2017, no new material weaknesses were identified, one new significant deficiency was identified, one existing material weakness was reassessed as a significant deficiency in FY 2016, and one existing significant deficiency remains outstanding.

The new significant deficiency pertains to the RD debt collection process regulated by Section 5 of the Digital Accountability and Transparency Act (DATA) of 2014, which requires a federal agency to notify the Secretary of the Treasury of any legally enforceable non-tax debt owed to an agency that is over 120-days delinquent. The FY 2017 OMB Circular A-123, Appendix A, review found the National Financial and Accounting Operations Center (NFAOC) Debt Collection process was not in compliance with the DATA Act, as delinquent debt was being reported at 180 days.

The significant deficiency reassessed from a material weakness in FY 2016 pertains to the FY 2015 RD Financial Statement Audit No. 85401-0005-11, which identified the subsidy model design and review needed improvement. The deficiency pertains to RDs models for projecting cashflows for future loan performance relying on weighted averages of historical loan performance data that did not reasonably predict future cashflows for programs with significant volatility. Furthermore, management had not established an effective, structured process to evaluate material differences between forecasted and actual cashflows for loans, and to take appropriate action to make adjustments to forecasting assumptions with supporting documentation when needed. NFAOC and the Budget Office have formalized procedures to review, evaluate, and document management approval of the results of the formulation and re-estimate analysis including processes for evaluating model assumptions, subsidy re-estimates, and management's conclusions. This process has been documented in a Standard Operating Procedures (SOP) document. A Credit Reform Assessment Team (CRAT) has been established to ensure effective internal controls in accordance with OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and the FMFIA.

One existing significant deficiency remains from the FY 2016 RD Financial Statement Audit No. 85401-0006-11. The Office of Inspector General (OIG) found that RD needed improvements over credit reform model implementation processes and internal controls ensuring the reasonableness of credit reform model results. RD implemented a new econometric credit reform model during FY 2016 and although RD performed testing of the new model's output and results, the analysis did not detect that the 2016 Guaranteed SFH estimated disbursements used in the re-estimate determination were incorrect. Additionally, NFAOC and Budget offices did not have congruent internal controls in place to prevent and/or detect errors. The OIG found that RD did not have fully developed policies and procedures for the review, evaluation, and testing of new econometric models prior to implementation. To ensure effective controls over the design, evaluation, testing, and implementation of new models, RD will ensure the model formula projects fourth quarter obligations and is considered when capping disbursements to obligations. RD has developed a SOP document to ensure controls over the model implementation process and the results are reliable and complete. A CRAT has been established to ensure effective internal controls in accordance with OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and the FMFIA.

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 2017, no new material weaknesses and no new significant deficiencies were identified. An IT significant deficiency remains outstanding that was identified in FY 2009, OIG Audit No. 85401-17-FM. OIG noted the RUS Legacy system was on antiquated software and needed to be retired. The RUS Legacy system is being converted to the more modern, web based Commercial Loan Servicing System (CLSS) and the Plan of Action and Milestones (POAM) monitors the transfer of each program and its servicing functionality. The last RUS-Legacy program, FFB, is currently being converted with an estimated completion date of September 30, 2018.

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

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

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

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

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

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

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

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

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

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

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

- Modernizing the CLSS system by converting various RUS program portfolios from an old legacy system and adding functionality to meet Federal financial standards. During 2017, Rural Development has progressed in its initiative to retire the RUS Legacy system, which will allow all Rural Electric and Telephone (RET) accounts to be serviced in CLSS, providing a user friendly, complete financial information system, utilizing state-of-the-art technologies integrated with seamless interfaces to other agency systems.

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

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

Rural Development management evaluated its financial management systems under FFMIA for the period ended September 30, 2017. Based on the results of its evaluation, Rural Development is in substantial compliance with the Federal Financial Management Systems Requirements, Applicable Federal Accounting Standards, and the Standard General Ledger at the transaction level.

Noncompliance with Laws and Regulations. RD reports two new noncompliances during FY 2017 and one existing noncompliance.

RD is non-compliant with the DATA of 2014 P.L. 113-101 due to non-submission of required files for the 2nd Quarter. Per Section 3.(a), agencies must submit at a minimum, quarterly files. RD successfully submitted Files A and B for the 3rd Quarter.

The FY 2017 OMB Circular A-123, Appendix A, review found the NFAOC Debt Collection process was not in compliance with the DATA Act, as delinquent debt was being reported at 180 days. The new significant deficiency pertains to the RD debt collection process regulated by Section 5 of the DATA of 2014, which requires a federal agency to notify the Secretary of the Treasury of any legally enforceable non-tax debt owed to an agency that is over 120-days delinquent.

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

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

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

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

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and

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

RD reports an IPIA program inventory that includes 37 loan and grant program categories and 1 administrative program category; all are considered to be low risk. The Rental Assistance Program (RAP) met the requirements to no longer report as a high risk program, in accordance with the OMB Circular A-123, Appendix C, revised Parts I and H, as the improper payment rate reported has been under the reporting threshold for more than two consecutive years.

Risk assessments for low risk programs are completed on a three-year rotating cycle. RD programs with larger outlays were required to perform detailed risk assessments. The following programs completed detailed risk assessments:

1. RD RBS Cooperative Service Relending Programs
2. RD Salaries and Expenses
3. RD RHS Direct Single Family Housing
4. RD RHS Guaranteed Community Facility Loans
5. RD RHS Guaranteed Multi-Family Housing Loans (Section 538 Loans)
6. RD RHS Housing Loans and Grants – Other
7. RD RHS Farm Labor Housing Loans (Section 514) and Grants (Section 516)
8. RD RHS Rural Rental Housing Loans (Section 515 Direct Rural Rental Housing Loans)
9. RD RHS Voucher Program (Section 542)
10. RD RUS Broadband Telecom Loans – Treasury Rate
11. RD RUS Water and Waste Disposal Systems for Rural Communities Grants
12. RD RUS Telecommunications Loans – Treasury Telecom Loan
13. RD RUS Electric Loan Programs – Direct Treasury Rate
14. RD RUS Rural Utilities Electric Program – Municipal Rate
15. RD RUS Community Connect Grants
16. RD RUS Public Television Digital Transition Grants
17. RUS Rural Energy Savings Program
18. RUS Appalachia Regional Commission Grants – Water & Waste
19. RUS Delta Regional Authority Grants – Water & Waste Projects

Annually, agencies must assess all programs with over $1 million in annual expenditures to perform payment recapture audits, or provide justification that a payment recapture audit program would not be cost effective, per OMB Circular A-123 Appendix C. For RD, 30 programs received OMB waivers from conducting payment recapture audits due to cost effectiveness, 3 programs participated in the Department's recovery audit program referred to as the Supplier Credit Recovery Audit, and 4 programs developed internal payment recapture plans, which were approved by the Office of the Chief Financial Officer (OCFO). These internal plans identify and recover improper payments. Activities include data mining initiated reviews, limited scope reviews, special investigations, eligibility verification, agency wide audits, and internal control reviews.

The following table shows total improper payment rate and dollar amount as reported in the Department Annual Financial Report (AFR) for high risk programs:

	REPORTED IN FY 2015	REPORTED IN FY 2016	REPORTED IN FY 2017 *
Reduction Target (%)	1.90%	1.40%	N/A
Outlays**	$1.147 billion	$1.141 billion	N/A
Improper Payment Rate %	1.41%	1.10%	N/A
Improper Payments ($)	$16.2 million	$12.6 million	N/A

*RAP is no longer considered a high risk program.

**For FY 17- the Agency is reviewing payments made in FY 16.

Variance Allowances

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

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

Fund Balance with Treasury:

Rural Development is reporting an overall decrease in Fund Balance with Treasury as reflected in the FY 2017 Consolidated Balance Sheet. The change is attributed to an increase in cash disbursed including reestimates for the FY 2017. This is offset by a reestimate receipt within the Guaranteed SFH Program.

Liabilities: Intragovernmental: Downward Reestimates Payable to Treasury:

Rural Development is reporting a decrease attributed to a 2017 Downward Reestimates Payable to Treasury as reported in the FY 2017 Consolidated Balance Sheet. The change is attributed to a 2017 downward reestimate accrual projected by the econometric model within the Guaranteed Rural Housing Program. This accrual has significantly increased Rural Development's downward reestimate payable to Treasury. The decrease is also attributed to less Capital Transfer paid in FY 2017, and negative subsidy as compared to FY 2016.

Loan Guarantee Liability:

Rural Development is reporting a decrease in the Loan Guarantee Liability as reported in the FY 2017 Consolidated Balance Sheet. The change is mostly due to the FY 2017 downward technical reestimate accrual projected by the econometric model within the Guaranteed Rural Housing Program as compared to the large one accrued in FY 2016. Also, to a lesser extent we saw decreases in some of the cash flows affecting the line-for example, fee income and final losses paid for guaranteed loans.

Borrowing Authority:

Rural Development is reporting an increase in Borrowing Authority realized in FY 2017. The change is due to an increase in Borrowing Authority realized in the Guaranteed Rural Housing, Rural FFB and Telecommunications, Rural WEP, and Rural CF Financing Programs due to increased obligations; offset, to a lesser degree by a decrease in the Borrowing Authority realized in the Rural Housing Program, and the current year decrease in the Indefinite Borrowing Authority in the Electric program as more Borrowing Authority was returned in current year as compared to last year.

Other Changes in Unobligated Balance:

Rural Development is reporting an increase in Other Changes in Unobligated Balance in the FY 2017. The change is due to an increase of Capital Transfers in the RET and Rural Housing Liquidating Programs as well as a prior year unobligated balance transfer in the Biorefinery Program in FY 2017 as compared to FY 2016.

Spending Authority from Offsetting Collections:

Rural Development is reporting an overall decrease in Spending Authority from Offsetting Collections in FY 2017. The change is an overall decrease attributed primarily to the decrease in the actual subsidy collected associated with the reestimates processed for the Guaranteed Rural Housing, offset by the increase processed in the RET and Rural CF Financing Programs, an overall decrease in the Principal and Interest Collections in the RET program due to FFB quarterly billings not being due until after the FY closed, increase in the Repayment of Debt in the Rural WEP and Rural CF Financing Programs and a decrease in the repayment of Certificates of Beneficial Ownership Debt in the RET Liquidating Program. The remaining change is due to changes in the fees and interest from Treasury collected.

New Obligations and Upward Adjustments:

New Obligations and Upward Adjustments as reported in the Statement of Budgetary Resources experienced an increase in FY 2017. The most significant increase is in the obligation activity associated with 2016 downward reestimates for the Guaranteed Rural Housing Program, an increase in the loan obligations within the RET and CF Programs, an increase in obligations associated with reestimates for the RET Program, a decrease in obligation activity in the RET Liquidating Program associated with Cushion of Credit (COC) funds used to pay financing loan payments, and the increase in loan subsidy obligations in the Rural CF Program.

Apportioned, unexpired accounts:

Rural Development is reporting a decrease in Apportioned, unexpired accounts. The change is due to the decrease in Apportionments in the Guaranteed Rural Housing, RET, Rural CF and Rural WEP programs, and to a lesser degree the offset due to an increase in Apportionments in the Rural Housing Program, as well as increase in Apportionments primarily in the RET Liquidating Program.

Unapportioned, unexpired accounts:

Rural Development is reporting a decrease in Unapportioned, unexpired accounts. The change is due to a significant decrease in the Unapportioned Authority in the Guaranteed Rural Housing Account attributable to the reestimate for FY 2017 as compared to FY 2016 and to a lesser extent a decrease recorded for the RET and Rural Housing Liquidating Programs, as well as an increase for the Rural Economic Development (RED) Grants program per the FY 2017 Standard Form (SF) 132s.

Actual Offsetting Collections:

Rural Development is reporting a decrease in collections in FY 2017. The decrease is due to the decrease in principal collections received in the RET program and the decrease in the subsidy collected in the Guaranteed Rural Housing Program and to a lesser extent the increase in the RET and CF Program subsidy collected for FY 2017 as compared to FY 2016.

Distributed Offsetting Receipts:

Rural Development is reporting a significant increase in Distributed Offsetting Receipts. This change is attributed to a significant increase of disbursements within the Guaranteed SFH subsidy reestimates.

Outlays:

Outlays as reported in the Statement of Budgetary Resources experienced an increase in FY 2017. The most significant increase is in the Guaranteed Rural Housing subsidy reestimate disbursements. This is offset by a decrease in Principal and Interest repayments within the RET Program.

Net Cost of Operations:

Rural Development is reporting a significant increase in Net Cost of Operations. This change is attributed to a significant increase of subsidy costs due to the disbursement of the FY 2016 technical reestimates projected by the econometric model within the Guaranteed SFH Program and the calculation of a significant lesser subsidy cost projected for FY 2017.

Limitations on Financial Statements

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

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

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(In Millions)

	2017	2016
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 21,432	$ 26,991
Accounts Receivable, Net (Note 5)	0	0
Other (Note 8)	0	0
Total Intragovernmental	21,432	26,991
Cash and Other Monetary Assets (Note 4)	41	44
Loans Receivable and Related Foreclosed Property, Net (Note 6)	86,793	86,090
General Property, Plant and Equipment, Net (Note 7)	41	44
Other (Note 8)	37	37
Total Assets	**108,344**	**113,206**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	0	1
Debt (Note 10)	95,010	92,734
Resources Payable to Treasury	7,892	8,516
Downward Reestimates Payable to Treasury General Fund	990	7,727
Other (Note 11)	22	24
Total Intragovernmental	103,914	109,002
Accounts Payable	28	27
Loan Guarantee Liability (Note 6)	574	1,326
Federal Employee and Veteran Benefits (Note 9)	36	36
Other (Note 11)	237	176
Total Liabilities	**104,789**	**110,567**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	3,521	3,187
Cumulative Results of Operations	34	(548)
Total Net Position	**3,555**	**2,639**
Total Liabilities and Net Position	**$ 108,344**	**$ 113,206**

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, 2017 AND 2016
(In Millions)

	2017	2016
Program Costs (Note 13):		
Intragovernmental Gross Costs		
Borrowing Interest Expense	$ 3,657	$ 3,648
Other	384	423
Total Intragovernmental Gross Costs	4,041	4,071
Less: Intragovernmental Earned Revenue (Note 14)	574	734
Intragovernmental Net Costs	**3,467**	**3,337**
Gross Costs with the Public:		
Grants	1,999	2,032
Loan Cost Subsidies	(346)	(4,286)
Other	937	1,062
Total Gross Costs with the Public	2,590	(1,192)
Less: Earned Revenues from the Public (Note 14)	3,483	3,412
Net Costs with the Public	**(893)**	**(4,604)**
Net Cost of Operations	**$ 2,574**	**$ (1,267)**

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, 2017 AND 2016 (In Millions)		
	2017	**2016**
Cumulative Results of Operations		
Beginning Balances:	$ (548)	$ (596)
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**(548)**	**(596)**
Budgetary Financing Sources:		
Other Adjustments	(137)	(187)
Appropriations Used	4,585	6,604
Transfers-In/Out Without Reimbursement	45	115
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	0	0
Imputed Financing	169	196
Other	(1,506)	(7,947)
Total Financing Sources	**3,156**	**(1,219)**
Net Cost of Operations	(2,574)	1,267
Net Change	582	48
Total Cumulative Results of Operations	**$ 34**	**$ (548)**
Unexpended Appropriations		
Beginning Balances:	$ 3,187	$ 3,044
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$ 3,187**	**$ 3,044**
Budgetary Financing Sources:		
Appropriations Received	4,952	6,789
Appropriations Transferred In/Out	(5)	0
Other Adjustments	(28)	(42)
Appropriations Used	(4,585)	(6,604)
Total Budgetary Financing Sources	**334**	**143**
Total Unexpended Appropriations	**3,521**	**3,187**
Net Position	**$ 3,555**	**$ 2,639**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016
(In Millions)

	2017		**2016**	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 6,907	$ 14,415	$ 6,145	$ 11,472
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	6,907	14,415	6,145	11,472
Recoveries of Prior Year Unpaid Obligations	165	959	139	986
Other Changes in Unobligated Balance	(327)	(5,367)	(152)	(5,844)
Unobligated Balance from Prior Year Budget Authority, Net	6,745	10,007	6,132	6,614
Appropriations	5,312	0	7,495	0
Borrowing Authority (Notes 16 and 17)	0	12,717	0	10,173
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,865	7,805	2,608	12,503
Total Budgetary Resources	**$ 14,922**	**$ 30,529**	**$ 16,235**	**$ 29,290**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	$ 7,114	$ 22,912	$ 9,328	$ 14,875
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	6,945	7,174	5,886	11,137
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	745	443	908	3,278
Unexpired Unobligated Balance, End of Year	7,690	7,617	6,794	14,415
Expired Unobligated Balance, End of Year	118	0	113	0
Total Unobligated Balance, End of Year	7,808	7,617	6,907	14,415
Total Budgetary Resources	**$ 14,922**	**$ 30,529**	**$ 16,235**	**$ 29,290**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 3,928	$ 21,113	$ 3,746	$ 20,284
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	7,114	22,912	9,328	14,875
Outlays	(6,687)	(19,656)	(9,007)	(13,060)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(165)	(959)	(139)	(986)
Unpaid Obligations, End of Year	4,190	23,410	3,928	21,113
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(27)	(534)	(11)	(561)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(2)	(64)	(16)	27
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(29)	(598)	(27)	(534)
Memorandum Entries				
Obligated Balance, Start of Year	3,901	20,579	3,735	19,723
Obligated Balance, End of Year	4,161	22,812	3,901	20,579
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$ 8,177	$ 20,522	$ 10,103	$ 22,676
Actual Offsetting Collections	(3,446)	(10,875)	(3,863)	(15,054)
Change in Uncollected Customer Payments From Federal Sources	(2)	(64)	(16)	27
Recoveries of Prior Year Paid Obligations	2	0	2	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**$ 4,731**	**$ 9,583**	**$ 6,226**	**$ 7,649**
Outlays, Gross	$ 6,687	$ 19,656	$ 9,007	$ 13,060
Actual Offsetting Collections	(3,446)	(10,875)	(3,863)	(15,054)
Outlays, Net	3,241	8,781	5,144	(1,994)
Distributed Offsetting Receipts	0	(8,512)	(1)	(1,516)
Agency Outlays, Net	**$ 3,241**	**$ 269**	**$ 5,143**	**$ (3,510)**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Rural Development

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2017 AND 2016 (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).

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. The 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.

The Consolidated Appropriations Act, 2017, Title VII General Provisions (section 750), encourages USDA to place special emphasis on persistent poverty counties and continue to utilize a strategy of partnering public resources with local expertise to grow rural economics and create jobs in these poverty stricken areas. The Act directs certain Rural Development programs to provide at least 10 percent of the amounts provided in the Act to be persistent poverty counties, defined as those areas that have 20 percent of their population living in poverty in the past 30 years. Programs included are Section 502 Single Family Direct Loan Programs, Mutual and Self-Help Housing Grants, Community Facilities Program, Rural Business Program, Rural Cooperative Development Grants, Rural Water and Waste Disposal Program, Rural Electric and Telecommunications Loan Program, Distance Learning Telemedicine, and Broadband Program. Total loan obligations in FY 2017 amounted to $985.9 million across all applicable programs.

NOTE 1: Continued

Rural Development List of Major Programs

Rural Housing and Community Facilities Programs

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

Rural Business and Cooperative Programs

- Business and Industry Loan Guarantees
- Rural Business Development Grants
- Intermediary Relending Program Loans
- Rural Microentrepreneur Assistance Program
- Rural Economic Development Loans & Grants
- Rural Cooperative Development Grants
- Socially Disadvantaged Groups Grants
- Value Added Producer Grant
- 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

Rural Utilities Programs

- Water and Waste Disposal Direct Loans, Loan Guarantees, Grants
- Solid Waste Management Grants
- Water and Waste Disposal Technical Assistance & Grants
- Circuit Rider Program
- Rural Broadband Direct Loans and Loan Guarantees
- Electric and Telecommunications Direct Loans & Loan Guarantees
- Energy Efficiency & Conservation Loan Program
- Rural Energy Savings Program
- Distance Learning and Telemedicine Loans & Grants
- Community Connect 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, except for those Credit Reform transactions impacting **Note 24**.

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

Estimates

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

Revenue and Other Financing Sources

Revolving/Credit Funds:

Beginning in FY 1992, the Federal Credit Reform Act of 1990, as amended, contained in the Omnibus Budget Reconciliation Act of 1990, provided Credit Reform procedures which affected the financing of

NOTE 1: Continued

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.

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

Fund Balance with Treasury

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

Lending Activities

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

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

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

Loans Receivable and Related Foreclosed Property, Net

Rural Development establishes a loan receivable after funds have been disbursed. They are carried at their principal amount outstanding (**Note 6**), and accrue interest based on the contractual interest rate. When a loan becomes non-performing (in excess of 90 days delinquent or when borrowers enter into

NOTE 1: Continued

troubled debt restructuring arrangements), all interest previously accrued on the loan is reversed for financial reporting purposes, and interest income on the non-performing loan is then recognized only to the extent of the collections received. Rural Development reclassifies non-performing loans as performing and accrues interest when they become current or less than 90 days delinquent. In addition, interest income recognition subsequent to troubled debt restructuring arrangements is generally limited to net present value of the adjusted future cash flows.

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

Present value and net realizable value are used to value the remaining interest and principal. **Note 6** provides additional information on the methods used for the direct and guaranteed loans.

General Property, Plant, and Equipment, Net

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

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

NOTE 1: Continued

Resources Payable to Treasury

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

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.

Contingencies

Rural Development mission area is a party in various legal actions and claims through the normal course of its operations. In the opinion of management and the USDA Office of the General Counsel, the ultimate resolution of these legal actions and claims will not materially affect the financial position or results of operations **(Note 12)**.

Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts, which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, Rural Development records the obligated amount as an undelivered order **(Note 21)**. An expenditure or an obligation cancellation reduces an undelivered order. Rural Development treats appropriated funds, which are not obligated, as unobligated amounts. At the end of the fiscal year, certain multi-year appropriations, which have unobligated balances, remain available for obligation in future periods. Rural Development returns unobligated appropriations to Treasury when their period of availability cancels.

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

NOTE 1: Continued

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.

Future Considerations

Three powerful Category 4 hurricanes made landfall in less than a month's time in August and September 2017, destroying residential property and infrastructure. Portions of the impacted area were proclaimed as federally-declared disaster areas. Rural Development has provided assistance by coordinating with private partners to restore utilities to rural communities in the region. The Agency placed evacuees in housing units, worked with its housing industry partners to underwrite loan guarantees and alerted them of the Federal Emergency Management Agency Voucher Program for displaced homeowners. In addition, it provided families with temporary loan forbearance agreements on their mortgage payments and responded to calls for assistance. Up to $1 million will be available for Technical Assistance and Training grants. These grants are available to public bodies and private non-profit organizations to provide water and wastewater systems with technical assistance and/or training on rural water systems. At this time, the complete financial impact to Rural Development remains uncertain until all devastated areas are assessed.

NOTE 2: NON-ENTITY ASSETS

Non-Entity Assets represent assets that are "NOT FOR USE" by Rural Development.

	FY 2017	FY 2016
Intragovernmental		
Fund Balance with Treasury	$ 0	$ 0
Total Intragovernmental	**0**	**0**
Cash and Other Monetary Assets	**41**	**44**
Total Non-Entity Assets	**41**	**44**
Total Entity Assets	108,303	113,162
Total Assets	**$ 108,344**	**$ 113,206**

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 2017) 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 2017 and 2016, there were approximately $121 million and $68 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 2017	FY 2016
Fund Balances		
Revolving Funds	$ 16,599	$ 22,470
General Funds	4,833	4,521
Other Fund Types	0	0
Total	**$ 21,432**	**$ 26,991**
Status of Fund Balance with Treasury (FBWT)		
Unobligated Balance:		
Available	$ 14,119	$ 17,023
Unavailable	1,306	4,299
Obligated Balance Not Yet Disbursed	26,973	24,480
Borrowing Authority Not Yet Converted to Fund Balance	(20,926)	(18,762)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(41)	(50)
Temporary Reduction of New Budget Authority	1	1
Non-Budgetary Fund Balance with Treasury	0	0
Total	**$ 21,432**	**$ 26,991**

NOTE 4: CASH AND OTHER MONETARY ASSETS

Cash is comprised of funds related to the operation of the Rural Housing Escrow Program on deposit with U.S. Bank as of September 30, 2017.

	FY 2017	FY 2016
Cash and Other Monetary Assets		
Cash	$ 41	$ 44
Foreign Currency	0	0
Other Monetary Assets	0	0
Total Cash and Other Monetary Assets	**$ 41**	**$ 44**

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

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2017			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	16	16	0
Total Accounts Receivable	**$ 16**	**$ 16**	**$ 0**
FY 2016			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	21	21	0
Total Accounts Receivable	**$ 21**	**$ 21**	**$ 0**

NOTE 6: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

Discussion of Credit Programs and Characteristics

Rural Development offers both direct and guaranteed loans administered through the Rural Housing Service, Rural Utilities Service and Rural Business-Cooperative Service. Each agency has unique missions to bring prosperity and opportunity to rural areas. The direct program has $86,793 million in outstanding credit program net receivables, and the guaranteed program has an outstanding guarantee of $114,435 million with a liability of $574 million, as of September 30, 2017.

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

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

Rural Business programs promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. They also provide technical assistance to rural businesses and cooperatives, conduct research into rural economic issues, and provide cooperative educational materials to the public.

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

NOTE 6: Continued

Loan Program Characteristics

PROGRAM CHARACTERISTICS – DIRECT		
MAJOR PROGRAMS	**OBJECTIVE**	**TERMS/CONDITIONS**
Single Family Housing Loans (including Mutual Self-Help Loans)	Safe, well-built, affordable homes for very-low and low-income rural Americans.	Up to 100% of market value or cost. Loan term of 33/38 years. Applicant may be eligible for payment assistance (subsidy) on the loan.
Single Family Housing Repair Loans	To help very-low-income applicants remove health and safety hazards or repair their homes.	Loans up to $20,000 up to 20 years at 1%.
Rural Rental (Multi-Family) Housing Loans	Safe, well-built, affordable rental housing for very-low-income individuals and families.	Up to 100% of total development cost (non-profits); 97% (for-profit); 95% (for-profits with Low-Income Housing Tax Credits). 30-year term with up to 50-year amortization.
Community Facility Loans	Improve, develop, or finance essential community facilities for rural communities.	Up to 100% of Market value. Term is for useful life of the facility or equipment, the State statue, or 40 years.
Farm Labor Housing Loans	Safe, well-built affordable rental housing for farmworkers.	Up to 102% of total development cost. Up to 33 years to repay at 1% interest.
Rural Economic Development Loans	Finance economic development and job creation in rural areas.	Intermediary makes loans to for-profit or non-profit businesses and public bodies. Loans are 0% for 10 years.
Intermediary Relending Program Loans	Establish revolving funds for business facilities and community development projects.	The intermediary makes loans to business from its revolving loan fund on terms consistent with security offered. Intermediary pays 1% for 30 years.
Rural Microentrepreneur Assistance Program	Establish revolving funds to target assistance to small rural enterprises.	Maximum term is 20 years with a 2 year payment deferral.
Water and Waste Disposal Loans	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 Waste Disposal Loan Guarantees	Provide infrastructure for rural areas.	Eligible lenders obtain up to 90% guarantee on loans they make and service.
Electric and Telecommunication Loan Guarantees	Help rural communities obtain affordable, high-quality electric and telecommunications services.	Maximum 35 year term 100% guaranteed

NOTE 6: Continued

Other Information Related to Credit Programs

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

For FY's 2017 and 2016, Rural Housing program properties consist primarily of 1,145 and 1,239 rural single family dwellings, respectively. The average holding period for single family housing properties in inventory was 16 months for both years. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2017 and 2016 was 23,111 and 22,789, respectively. Rural Development also allows leasing certain properties to eligible individuals.

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

Interest Credit
Approximately $15,375 million and $15,913 million of the Rural Housing borrowers' unpaid loan principal, as of September 30, 2017 and 2016, 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 $744 million and $777 million higher for FY's 2017 and 2016, respectively.

Also at the end of FY's 2017 and 2016, the Rural Development housing portfolio contained approximately 58,254 and 60,734 restructured loans. The outstanding unpaid principal balance of $2,900 million was the same for both years.

Modifications
A modification is any government action, different from actions in the baseline assumptions, that affects the subsidy cost, such as a change in the terms of the loan contract. This includes the sale of loan assets and any action resulting from new legislation. Modifications may also occur from the exercise of administrative discretion under existing law that directly or indirectly alters the estimated cost of outstanding direct loans or loan guarantees. The cost of a modification is the difference between the net present value of the cash flows before and after the modification.

Multi-Family Housing direct loan modifications related to the revitalization program, which began in FY 2006, and continued through FY 2017. 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.

NOTE 6: Continued

Subsidy Rates and Reestimates
The Federal Credit Reform Act of 1990, as amended, and OMB Circular A-11 govern the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost." Under the Act, subsidy costs for all loans obligated after 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 2017 and 2016, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY's 2017 and 2016, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. Defaults, fees, and other collections are considered significant assumptions within the guaranteed housing and business and industry program estimates.

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

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

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

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. Direct loans and loan guarantees made after 1991 are governed by the Federal Credit Reform Act of 1990, as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at net present value of future cash flows. Additionally, the net present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the direct loan or guaranteed loan is disbursed.

NOTE 6: Continued

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 2017 and FY 2016. Loans receivable and related foreclosed property, net balances at the end of FY 2017 were $86,793 million compared to $86,090 million at the end of FY 2016. Defaulted guaranteed loans were $249 million at the end of both years.

The Omnibus Budget Act of 1987, section 313, authorized the accumulation of Cushion of Credit (CoC) in the Revolving Fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt. To accurately represent the value of Electric and Telecommunication assets, Rural Development reports the CoC amounts as a separate line item in **Table 1**, under the Direct Loans Receivables Section.

NOTE 6: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

FY 2017	**Loans Receivable, Gross**	**Interest Receivable**	**Foreclosed Property**	**Allowance [1]**	**Value of Assets**
Direct Loans					
Obligated Pre-1992					
Housing	$ 6,642	$ 115	$ 12	$ (30)	$ 6,739
Community Facility	18	0	0	0	18
Electric	2,357	12	0	(1,460)	909
Telecommunication	114	0	0	0	114
Water and Environmental	328	4	0	(1)	331
Intermediary Relending	9	0	0	0	9
Pre-1992 Total	**9,468**	**131**	**12**	**(1,491)**	**8,120**
Obligated Post-1991					
Housing	17,951	143	62	(2,215)	15,941
Community Facility	7,497	53	0	(140)	7,410
Electric	45,831	268	0	(626)	45,473
Telecommunication	3,826	3	0	(7)	3,822
Water and Environmental	12,266	88	0	(228)	12,126
Intermediary Relending	370	2	0	(90)	282
Business and Industry	42	0	0	(3)	39
Economic Development	186	0	0	(14)	172
Post-1991 Total	**87,969**	**557**	**62**	**(3,323)**	**85,265**
Cushion of Credit Advance Payments	**(6,841)**	**0**	**0**	**0**	**(6,841)**
Total Direct Loans Receivable	**90,596**	**688**	**74**	**(4,814)**	**86,544**
Defaulted Guaranteed Loans					
Post-1991					
Housing	73	1	0	(36)	38
Community Facility	7	0	0	0	7
Business and Industry	247	4	0	(47)	204
Total Defaulted Guaranteed Loans	**$ 327**	**$ 5**	**$ 0**	**$ (83)**	**$ 249**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 86,793**

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

NOTE 6: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

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

[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 2016 to FY 2017. The subsidy cost allowance in FY 2017 was $3,406 million compared to $3,556 million in FY 2016, a decrease of $150 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2017**	**FY 2016**
Beginning Balance of the Subsidy Cost Allowance	$ 3,556	$ 5,122
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	(158)	(99)
Default costs (net of recoveries)	104	84
Fees and other collections	(14)	(11)
Other subsidy costs	(56)	(65)
Total of the above subsidy expense components	(124)	(91)
Adjustments:		
Loan modifications	3	4
Fees received	64	70
Loans written off	(306)	(1,159)
Subsidy allowance amortization	(200)	(107)
Other	78	(286)
Ending balance of the subsidy cost allowance before reestimates	3,071	3,553
Add or subtract reestimates by component:		
Interest rate reestimates	213	(78)
Technical/default reestimates	122	81
Total of the above reestimate components	335	3
Ending Balance of the Subsidy Cost Allowance	**$ 3,406**	**$ 3,556**

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 2017 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 2017 and 2016 by program. Total direct loan subsidy expense in FY 2017 was $214 million compared to ($84) million in FY 2016, an increase of $298 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 2017										
Housing	$ 53	$ 45	$ 0	$ 6	$ 104	$ 3	$ (20)	$ 27	$ 7	**$ 114**
Community Facility	(164)	47	0	(1)	(118)	0	(5)	65	60	**(58)**
Electric	(104)	6	(14)	(35)	(147)	0	236	(42)	194	**47**
Telecommunications	0	5	0	(4)	1	0	(22)	56	34	**35**
Water and Environmental	47	1	0	(22)	26	0	26	18	44	**70**
Intermediary Relending	5	0	0	0	5	0	(2)	(8)	(10)	**(5)**
Business and Industry	1	0	0	0	1	0	0	6	6	**7**
Economic Development	4	0	0	0	4	0	0	0	0	**4**
Total Subsidy Expense, Direct	**$ (158)**	**$ 104**	**$ (14)**	**$ (56)**	**$ (124)**	**$ 3**	**$ 213**	**$ 122**	**$ 335**	**$ 214**
FY 2016										
Housing	$ 48	$ 44	$ 0	$ 11	$ 103	$ 4	$ (7)	$ (75)	$ (82)	**$ 25**
Community Facility	(116)	29	0	(5)	(92)	0	(42)	218	176	**84**
Electric	(104)	7	(11)	(41)	(149)	0	101	2	103	**(46)**
Telecommunications	1	3	0	(10)	(6)	0	(48)	(74)	(122)	**(128)**
Water and Environmental	63	1	0	(20)	44	0	(80)	2	(78)	**(34)**
Intermediary Relending	5	0	0	0	5	0	0	0	0	**5**
Business and Industry	0	0	0	0	0	0	0	9	9	**9**
Economic Development	4	0	0	0	4	0	(2)	(1)	(3)	**1**
Total Subsidy Expense, Direct	**$ (99)**	**$ 84**	**$ (11)**	**$ (65)**	**$ (91)**	**$ 4**	**$ (78)**	**$ 81**	**$ 3**	**$ (84)**

NOTE 6: Continued

Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4.** Direct loans disbursed in FY 2017 were $6,925 million compared to $7,048 million in FY 2016, a decrease of $123 million.

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

	FY 2017	FY 2016	FY 2017 Over/Under FY 2016
Housing	$ 1,123	$ 1,109	$ 14
Community Facility	1,638	1,230	408
Electric	3,045	3,433	(388)
Telecommunications	216	362	(146)
Water and Environmental	851	854	(3)
Intermediary Relending	17	17	0
Business and Industry	5	4	1
Economic Development	30	39	(9)
Total Direct Loans Disbursed	**$ 6,925**	**$ 7,048**	**$ (123)**

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 2017 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 2017 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 2017	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	1.83	4.71	0.00	0.23	6.77
Section 504 Housing Repair	17.73	-0.03	0.00	-3.76	13.94
Single Family Housing Credit Sales	-9.42	2.27	0.00	4.79	-2.36
Section 514 Farm Labor Housing	29.96	0.26	0.00	-0.66	29.56
Section 515 Multi-Family Housing	30.03	0.66	0.00	-1.09	29.60
Section 523 Self-Help Housing Land Development			Not Funded		
Section 524 Housing Site Development			Not Funded		
Multi-Family Housing Credit Sales			Not Funded		
Multi-Family Housing Relending	32.41	0.00	0.00	-0.03	32.38
Multi-Family Housing Revitalization Seconds	56.65	0.43	0.00	-0.07	57.01
Multi-Family Housing Revitalization Zero	51.14	0.34	0.00	-0.19	51.29
Community Facilities	-5.65	3.44	0.00	-0.35	-2.56
Community Facilities Relending	-13.85	8.42	0.00	1.60	-3.83
Distance Learning and Telemedicine			Not Funded		
Broadband	0.18	16.59	0.00	-0.13	16.64
Water & Environmental	9.40	0.08	0.00	-5.14	4.34
Electric Hardship			Not Funded		
FFB Electric	-4.34	0.02	0.00	-0.60	-4.92
Telephone Hardship			Not Funded		
Telephone Treasury	0.18	0.40	0.00	0.31	0.89
FFB Telephone	0.03	0.28	0.00	-2.84	-2.53
Intermediary Relending Program	29.09	1.61	0.00	-1.71	28.99
Rural Economic Development	14.24	0.02	0.00	-0.03	14.23
Rural Microentrepreneur	9.72	2.68	0.00	0.00	12.40
Electric Underwriters	0.00	1.45	-5.23	0.00	-3.78
Rural Energy Savings Program	13.59	1.27	0.00	-0.42	14.44

NOTE 6: Continued

Analysis of Direct Loans

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

RURAL HOUSING PROGRAM
Direct Community Facility
The Community Facility Program had an overall upward reestimate of $60 million. Reductions in the Single Effective Rates (SER), caused a downward reestimates, and reductions in projected future interest income from borrowers. Lower Borrower Interest Rates (BIR), were the main drive of the upward reestimates. Another important contributor was lower actual Program disbursements, which decrease future inflow of interest income. Cohort years 2012 through 2017 experienced the most significant changes. In FY 2016 the Program had an upward reestimates of $176 million.

RURAL UTILITIES PROGRAM
Direct Electric Programs
The Electric Program had an overall reestimate of $22 million comprised primarily of $75 million upward reestimate in the FFB program, and an $80 million downward reestimate in the FFB Underwriter program. The FFB program disbursed less funds than what was projected in the previous year resulting in a decreased amount of projected collection of interest, driving the reestimate upward. The trend of upward reestimates continued to occur in the FFB Underwriters program due to updated interest rate projections used in the economic assumptions. In FY 2016 the Program had an upward reestimates of $103 million.

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 2017 increased compared to the FY 2016 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2017 and FY 2016, there were $128,364 million and $122,446 million in outstanding principal (face value) and $114,435 million and $109,195 million in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2017		
Housing	$ 120,408	$ 108,329
Community Facility	1,129	1,002
Electric	166	166
Water and Environmental	114	102
Business and Industry	6,547	4,836
Total Guarantees Outstanding	**$ 128,364**	**$ 114,435**
FY 2016		
Housing	$ 114,846	$ 103,326
Community Facility	1,216	1,075
Electric	172	172
Water and Environmental	119	106
Business and Industry	6,093	4,516
Total Guarantees Outstanding	**$ 122,446**	**$ 109,195**

NOTE 6: Continued

Liability for Loan Guarantees

Liability for loan guarantees consist of net cash flows (outflows less inflows) paid or to be paid by the entity as a result of the loan guarantees. **Table 6a** shows the loan guarantee liability. **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2017, the total liabilities decreased by $752 million compared to FY 2016.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value
FY 2017	
Liability for Loan Guarantees	
Housing	$ 115
Community Facility	43
Electric	0
Water and Environmental	1
Business and Industry	415
Total Liabilities for Loan Guarantees	**$ 574**
FY 2016	
Liability for Loan Guarantees	
Housing	$ 743
Community Facility	40
Electric	0
Water and Environmental	1
Business and Industry	542
Total Liabilities for Loan Guarantees	**$ 1,326**

NOTE 6: Continued

The Agency continued to process claim payments to lenders in FY 2017 related to the Guaranteed Single Family Housing Program, although the amount in the current year as compared to the previous year is lower.

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

Beginning Balance, Changes, and Ending Balance	**FY 2017**	**FY 2016**
Beginning Balance of the Loan Guarantee Liability	$ 1,326	$ 5,390
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	0	0
Default costs (net of recoveries)	821	1,168
Fees and other collections	(893)	(1,137)
Other subsidy costs	0	0
Total of the above subsidy expense components	(72)	31
Adjustments:		
Loan guarantee modifications	0	0
Fees received	597	767
Interest supplements paid	(9)	(9)
Claim payments to lenders	(739)	(716)
Interest accumulation on the liability balance	26	181
Loans acquired	49	(264)
Other	(116)	179
Ending balance of the loan guarantee before reestimates	1,062	5,559
Add or subtract reestimates by component:		
Interest rate reestimates	24	36
Technical/default reestimates	(512)	(4,269)
Total of the above reestimate components	(488)	(4,233)
Ending Balance of the Loan Guarantee Liability (Post-1991)	**$ 574**	**$ 1,326**

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 2017 and FY 2016 by loan program. Total guaranteed loan subsidy expense in FY 2017 was ($560) million compared to ($4,202) million in FY 2016, an increase of $3,642 million.

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				
Guaranteed Loan Programs	**Interest Supplement**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**	**Total Modification**	**Interest Rate**	**Technical**	**Total**	**GRAND TOTAL**
FY 2017										
Housing	$ 0	$ 708	$ (846)	$ 0	$ (138)	$ 0	$ 21	$ (351)	$ (330)	**$ (468)**
Community Facility	0	4	(1)	0	3	0	1	12	13	**16**
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	109	(46)	0	63	0	2	(173)	(171)	**(108)**
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 821**	**$ (893)**	**$ 0**	**$ (72)**	**$ 0**	**$ 24**	**$ (512)**	**$ (488)**	**$ (560)**
FY 2016										
Housing	$ 0	$ 1,059	$ (1,093)	$ 0	$ (34)	$ 0	$ 36	$ (4,267)	$ (4,231)	**$ (4,265)**
Community Facility	0	5	(1)	0	4	0	1	7	8	**12**
Electric	0	0	0	0	0	0	0	0	0	**0**
Water and Environmental	0	0	0	0	0	0	0	0	0	**0**
Business and Industry	0	104	(43)	0	61	0	(1)	(9)	(10)	**51**
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 1,168**	**$ (1,137)**	**$ 0**	**$ 31**	**$ 0**	**$ 36**	**$ (4,269)**	**$ (4,233)**	**$ (4,202)**

NOTE 6: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value increased to $20,512 million in FY 2017 from $18,012 million in FY 2016. The housing loan program experienced the largest increase.

TABLE 8: GUARANTEED LOANS DISBURSED (POST-1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2017		
Housing	$ 19,009	$ 17,108
Community Facility	92	81
Water and Environmental	8	7
Business and Industry	1,403	1,084
Total Guaranteed Loans Disbursed	**$ 20,512**	**$ 18,280**
FY 2016		
Housing	$ 16,757	$ 15,081
Community Facility	85	75
Water and Environmental	13	11
Business and Industry	1,157	896
Total Guaranteed Loans Disbursed	**$ 18,012**	**$ 16,063**

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 2017 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 2017	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	3.49	-4.25	0.00	-0.76
Section 538 Multi-Family Housing	3.99	-7.52	0.00	-3.53
Community Facilities	3.12	-0.88	0.00	2.24
Business and Industry	7.75	-3.91	0.00	3.84
Water and Environmental	1.35	-0.87	0.00	0.48
Renewable Energy	5.91	-1.27	0.00	4.64
Biorefinery (Section 9003 Loan Guarantees)	24.09	-3.72	0.44	20.81

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 Section 502 Program had an overall downward reestimate of $36 million. The downward reestimate of $36 million is the result of, a downward reestimate of $101 million, in the Blended component of the program, netted to an upward reestimate of $65 million, in the Purchased component of the program. The blended component's change is mostly attributed to large downward reestimates in the last two cohort years due to upfront fees charged to borrowers, increasing the overall cash balances. The purchased component experienced an increase in actual defaults in FY 2017 as compared with FY 2016 for cohort years 2008 and 2010.

The Loan Guarantee Liability as reported in the fiscal year 2017 Consolidated Balance Sheet decreased in FY 2017. The change is attributed to a decrease in the FY 2017 technical reestimates within the Guaranteed Single Family Housing Program.

Business and Industry Program

The Guaranteed Business and Industry Program had an overall downward reestimate of $116 million. The program had a reduction in anticipated defaults in later cohort years, which lowered the projected subsidy level resulting in the overall downward reestimate.

NOTE 6: Continued

Administrative Expenses

Table 10 shows the administrative expenses for the direct and guaranteed loan programs consistent with the Federal Credit Reform Act of 1990, as amended, subsidy cash flows exclude direct federal administrative expenses.

TABLE 10: ADMINISTRATIVE EXPENSES

	FY 2017	FY 2016
Direct Loan Programs		
Total	**$ 212**	**$ 199**
Guaranteed Loan Programs		
Total	**$ 496**	**$ 466**

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 2017						
Personal Property						
Equipment	$ 3	$ 2	$ 1	5-20	SL	$ 25,000
Internal Use Software	195	157	38	5-8	SL	$ 100,000
Internal Use Software in Development	2	0	2		SL	$ 100,000
Total	**$ 200**	**$ 159**	**$ 41**			
FY 2016						
Personal Property						
Equipment	$ 3	$ 2	$ 1	5-20	SL	$ 25,000
Internal Use Software	188	146	42	5-8	SL	$ 100,000
Internal Use Software in Development	1	0	1		SL	$ 100,000
Total	**$ 192**	**$ 148**	**$ 44**			

NOTE 8: OTHER ASSETS

	FY 2017	FY 2016
Intragovernmental		
Advances to Others	$ 0	$ 0
Other Assets	0	0
Total Intragovernmental	**0**	**0**
With the Public		
Investment in Loan Asset Sale Trust[5]	35	35
Other	2	2
Total Other Assets – Non-Governmental	**37**	**37**
Total Other Assets	**$ 37**	**$ 37**

[3] Range of Service Life

[4] SL - Straight Line

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

NOTE 9: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2017	FY 2016
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 6	$ 6
Total Intragovernmental	**6**	**6**
With the Public		
Federal Employee and Veteran Benefits	36	36
Unfunded Annual Leave	34	35
Contingent Liability	65	65
Other Liability	65	24
Total With the Public	**200**	**160**
Total Liabilities Not Covered by Budgetary Resources[6]	**206**	**166**
Total Liabilities Covered by Budgetary Resources	104,583	110,401
Total Liabilities	**$ 104,789**	**$ 110,567**

NOTE 10: DEBT

	Beginning Balance	Net Borrowing	Ending Balance
FY 2017			
Intragovernmental Debt			
Debt to Treasury	$ 49,370	$ 206	$ 49,576
Debt to the Federal Financing Bank (FFB)	43,364	2,070	45,434
Total Intragovernmental Debt	92,734	2,276	95,010
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 92,734**	**$ 2,276**	**$ 95,010**
FY 2016			
Intragovernmental Debt			
Debt to Treasury	$ 49,942	$ (572)	$ 49,370
Debt to the Federal Financing Bank (FFB)	41,701	1,663	43,364
Total Intragovernmental Debt	91,643	1,091	92,734
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 91,643**	**$ 1,091**	**$ 92,734**

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

NOTE 10: Continued

	FY 2017	FY 2016
Classification of Debt		
Intragovernmental Debt	$ 95,010	$ 92,734
Debt Held by the Public	0	0
Total Debt	**$ 95,010**	**$ 92,734**

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 2017	FY 2016
Interest Payable, Federal		
Federal Financing Bank	$ 353	$ 25
Total	**$ 353**	**$ 25**

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 2017	FY 2016
Interest Expense, Federal		
Federal Financing Bank	$ 1,618	$ 1,489
Treasury	2,039	2,159
Total	**$ 3,657**	**$ 3,648**

NOTE 11: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2017			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 12	$ 12
Employer Contributions & Payroll Taxes Payable	0	4	4
Unfunded FECA Liability	3	3	6
Liability for Deposit Fund & Suspense Accounts	0	0	0
Other Liabilities	0	0	0
Total Intragovernmental Debt	**3**	**19**	**22**
Other Accrued Liabilities	0	68	68
Accrued Funded Payroll & Leave	0	15	15
Unfunded Annual Leave	0	34	34
Liability for Advances & Prepayments	0	(10)	(10)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	65	65
Other Liabilities	24	41	65
Total Other Liabilities	**$ 27**	**$ 232**	**$ 259**
FY 2016			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 14	$ 14
Employer Contributions & Payroll Taxes Payable	0	4	4
Unfunded FECA Liability	4	2	6
Liability for Deposit Fund & Suspense Accounts	0	0	0
Other Liabilities	0	0	0
Total Intragovernmental Debt	**4**	**20**	**24**
Other Accrued Liabilities	0	47	47
Accrued Funded Payroll & Leave	0	15	15
Unfunded Annual Leave	0	35	35
Liability for Advances & Prepayments	0	(10)	(10)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	65	65
Other Liabilities	24	0	24
Total Other Liabilities	**$ 28**	**$ 172**	**$ 200**

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, 2017 and 2016, there were approximately $4,986 million and $4,178 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.

The following contingency-related lawsuits are reportable for the fiscal year ending on September 30, 2017.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments were deemed probable in FY 2014. As of September 2017, the Office of the General Council has made the determination that a $65 million unfavorable outcome is probable. This amount has been accrued to the Financial Statements.

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

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

NOTE 13: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2017					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 755	$ 14	$ 889	$ 1,999	$ 3,657
Other	295	8	58	23	384
Total Intragovernmental Gross Cost	1,050	22	947	2,022	4,041
Less:					
Intragovernmental Earned Revenue (Note 14)	138	4	151	281	574
Intragovernmental Net Costs	**912**	**18**	**796**	**1,741**	**3,467**
Gross Costs with the Public:					
Grants	14	1,256	729	0	1,999
Loan Cost Subsidies	(377)	23	(22)	30	(346)
Other	286	11	64	576	937
Total Gross Costs with the Public	(77)	1,290	771	606	2,590
Less:					
Earned Revenues from the Public (Note 14)	643	11	764	2,065	3,483
Net Costs with the Public	**(720)**	**1,279**	**7**	**(1,459)**	**(893)**
Net Cost of Operations	**$ 192**	**$ 1,297**	**$ 803**	**$ 282**	**$ 2,574**
FY 2016					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 735	$ 12	$ 906	$ 1,995	$ 3,648
Other	293	29	72	29	423
Total Intragovernmental Gross Cost	1,028	41	978	2,024	4,071
Less:					
Intragovernmental Earned Revenue (Note 14)	252	3	160	319	734
Intragovernmental Net Costs	**776**	**38**	**818**	**1,705**	**3,337**
Gross Costs with the Public:					
Grants	10	1,302	720	0	2,032
Loan Cost Subsidies	(4,260)	21	20	(67)	(4,286)
Other	404	38	55	565	1,062
Total Gross Costs with the Public	(3,846)	1,361	795	498	(1,192)
Less:					
Earned Revenues from the Public (Note 14)	660	10	785	1,957	3,412
Net Costs with the Public	**(4,506)**	**1,351**	**10**	**(1,459)**	**(4,604)**
Net Cost of Operations	**$ (3,730)**	**$ 1,389**	**$ 828**	**$ 246**	**$ (1,267)**

NOTE 13: Continued

Other Disclosures

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

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

NOTE 14: Earned Revenue

	Mortgage Credit		Housing Assistance		Area & Regional Development		Energy Supply & Conservation		Total
FY 2017									
Intragovernmental									
Interest Revenue from Treasury	$	129	$	4	$	149	$	280	$ 562
Other		9		0		2		1	12
Total Intragovernmental Earned Revenue		**138**		**4**		**151**		**281**	**574**
With the Public									
Interest Revenue		643		11		749		2,065	3,468
Other		0		0		15		0	15
Total Earned Revenues from the Public		**643**		**11**		**764**		**2,065**	**3,483**
Total Earned Revenues	**$**	**781**	**$**	**15**	**$**	**915**	**$**	**2,346**	**$ 4,057**
FY 2016									
Intragovernmental									
Interest Revenue from Treasury	$	246	$	3	$	158	$	318	$ 725
Other		6		0		2		1	9
Total Intragovernmental Earned Revenue		**252**		**3**		**160**		**319**	**734**
With the Public									
Interest Revenue		660		10		757		1,957	3,384
Other		0		0		28		0	28
Total Earned Revenues from the Public		**660**		**10**		**785**		**1,957**	**3,412**
Total Earned Revenues	**$**	**912**	**$**	**13**	**$**	**945**	**$**	**2,276**	**$ 4,146**

Other Disclosures

Credit Reform

The amount of subsidy expense on direct loans made after 1991 equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities within a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both federal and non-federal sources. For further discussions of revenue and present value refer to **Notes 1** and **6**.

NOTE 14: Continued

Exchange Transactions with Non-Federal Sources

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

Rural Housing Programs

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

Rural Business-Cooperative Program

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

Rural Utilities Program

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

Exchange Transactions with Federal Sources

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

NOTE 15: APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VS. REIMBURSABLE OBLIGATIONS

	Direct	Reimbursable	Total
FY 2017			
Category A-Apportionment by Fiscal Quarter	$ 672	$ 11	$ 683
Category B-Apportionment by Special Activities	29,343	0	29,343
Total Obligations Incurred	**$ 30,015**	**$ 11**	**$ 30,026**
FY 2016			
Category A-Apportionment by Fiscal Quarter	$ 209	$ 468	$ 677
Category B-Apportionment by Special Activities	23,526	0	23,526
Total Obligations Incurred	**$ 23,735**	**$ 468**	**$ 24,203**

NOTE 16: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2017 and 2016, the amount of available borrowing authority was $20,926 million and $18,762 million, respectively.

NOTE 17: TERMS OF BORROWING AUTHORITY USED

Requirements for Repayments of Borrowings

Rural Development repays borrowings on SF1151, Nonexpenditure Transfer Authorization, as maturity dates become due. For liquidating accounts, maturity dates are one working day prior to the anniversary date of the note. For financing accounts, maturity dates are based on the period of time used in the subsidy calculation, not the contractual term of the Agency's loans to borrowers. This period of time used in the subsidy calculation will normally be longer than the contractual term of the Agency's loans to borrowers.

Financing Sources for Repayments of Borrowings

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

NOTE 17: 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; however, they cannot be made on Federal Financing Bank Certificates of Beneficial Ownership in the liquidating accounts without penalty.

NOTE 18: PERMANENT INDEFINITE APPROPRIATIONS

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

Permanent indefinite appropriations are mainly applicable to program accounts for reestimates related to upward adjustments of subsidy. Under unique situations, both liquidating and financing accounts may receive appropriations. These appropriations become available pursuant to standing provisions of law, without further action by Congress, after transmittal of the Budget for the year involved. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for the liquidating accounts, servicing actions, and subsidy reestimates for the program accounts.

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

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

NOTE 19: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Purpose

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

Amount

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

Time

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

The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the Permanent Indefinite Appropriations footnote disclosure **(Note 18)**.

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

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

The 2019 Budget of the United States Government, with the "Actual" columns completed for FY 2017, 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 2018. The Budget will be available from the Government Printing Office.

The 2018 Budget of the United States Government, with the "Actual" columns completed for FY 2016, was published in May of 2017 and reconciled to the SBR.

The reconciling items represent:

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

- In FY 2016, Working Capital (12X4609) and Biomass Research and Development, Natural Resources Conservation Services (12X1003) was included in the SBR, but was not included in the Rural Development Budget section.

- In FY 2016, Alternative Agricultural Research and Commercialization Corporation Revolving Fund (12X4144) was not included in the SBR, but was included in the Budget.

- Amounts due to rounding.

NOTE 20: Continued

Reconciliation Between FY 2016 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)	$45,525	Total Budgetary Resources Available for Obligation	$45,406	**$ 119** E 118 R (3) A 4	None
New Obligations and Upward Adjustments (Line 2190)	$24,203	Total New Obligations	$24,197	**$ 6** E 5 R 1	None
Distributed Offsetting Receipts (Line 4200)	($1,517)	Treasury Combined Statement (Receipts by Department)	($1,517)	**$ 0**	None
Net Outlays (Line 4190)	$3,150	Outlays	$3,153	**$** (3) R (3)	None

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

NOTE 21: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2017 and 2016, the amount of undelivered orders was $27,104 million and $24,894 million, respectively. The remaining amount as presented on the financial statement line is attributed to delivered orders.

NOTE 22: ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

	FY 2017 Obligated	FY 2016 Obligated
Beginning Balances	$ 24,480	$ 23,458
Adjustments	0	0
Beginning Balances, as adjusted	**$ 24,480**	**$ 23,458**

NOTE 23: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2017	FY 2016
Sources of Collections		
Recoveries and Refunds	10	3
Total Revenue Collected	**10**	**3**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	10	3
Total Disposition of Revenue	**10**	**3**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 24: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2017	FY 2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 30,026	$ 24,203
Less: Spending Authority from Offsetting Collections and Recoveries	15,511	20,031
Obligations Net Offsetting Collections and Recoveries	14,515	4,172
Less: Offsetting Receipts	8,512	1,517
Net Obligations	6,003	2,655
Other Resources		
Imputed Financing from Costs Absorbed by Others	169	196
Other	(1,506)	(7,947)
Net Other Resources Used to Finance Activities	(1,337)	(7,751)
Total Resources Used to Finance Activities	**4,666**	**(5,096)**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(2,210)	(979)
Resources that Fund Expenses Recognized in Prior Periods	(3,204)	(11,762)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	13,858	18,451
Change in Unfilled Customer Orders	64	(25)
Other	8,512	1,517
Resources that Finance the Acquisition of Assets	(21,492)	(14,878)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,506	7,947
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(2,966)**	**271**
Total Resources Used to Finance the Net Cost of Operations	**1,700**	**(4,825)**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(1)	(1)
Upward/Downward Reestimates of Credit Subsidy Expense	803	3,427
Other	0	0
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	802	3,426
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	11	10
Revaluation of Assets or Liabilities	0	0
Other Components Not Requiring or Generating Resources:		
Bad Debt Expense	84	131
Other	(23)	(9)
Total Components of Net Cost of Operations That Will Not Require or Generated Resources	72	132
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**874**	**3,558**
Net Cost of Operations	**$ 2,574**	**$ (1,267)**

NOTE 25: 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, 2017 and 2016

	FY 2017	FY 2016
Fiduciary Net Assets, beginning of year	**$ 113**	**$ 107**
Contributions	432	427
Disbursements	429	421
Increase/Decrease in Fiduciary Fund Balances	**3**	**6**
Fiduciary Net Assets, end of year	**$ 116**	**$ 113**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2017 and 2016

	FY 2017	FY 2016
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 10	$ 6
Investments – Short Term	16	7
Investments – Long Term	90	100
Total Fiduciary Net Assets	**$ 116**	**$ 113**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund

Amounts Presented in Millions

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	**Rural Community Advancement Programs**	**Rural Community Advancement Programs**	**Rural Community Advancement Programs**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 145	$ 1,084	$ 196	$ 1,669
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	145	1,084	196	1,669
Recoveries of Prior Year Unpaid Obligations	91	340	80	319
Other Changes in Unobligated Balance	(14)	(972)	(30)	(1,467)
Unobligated Balance from Prior Year Budget Authority, Net	222	452	246	521
Appropriations	1,052	0	837	0
Borrowing Authority (Notes 16 and 17)	0	4,679	0	3,757
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	13	989	13	1,646
Total Budgetary Resources	**1,287**	**6,120**	**1,096**	**5,924**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	1,173	5,115	951	4,840
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	83	845	143	860
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	31	160	0	224
Unexpired Unobligated Balance, End of Year	114	1,005	143	1,084
Expired Unobligated Balance, End of Year	0	0	2	0
Total Unobligated Balance, End of Year	114	1,005	145	1,084
Total Budgetary Resources	**1,287**	**6,120**	**1,096**	**5,924**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	2,275	8,029	2,308	6,959
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	1,173	5,115	951	4,840
Outlays	(1,036)	(3,747)	(904)	(3,451)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(91)	(340)	(80)	(319)
Unpaid Obligations, End of Year	2,321	9,057	2,275	8,029
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(162)	0	(192)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	(20)	0	30
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(182)	0	(162)
Memorandum Entries:				
Obligated Balance, Start of Year	2,275	7,867	2,308	6,767
Obligated Balance, End of Year	2,321	8,875	2,275	7,867
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,065	5,668	850	5,403
Actual Offsetting Collections	(95)	(2,449)	(126)	(2,368)
Change in Uncollected Customer Payments From Federal Sources	0	(20)	0	30
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**970**	**3,199**	**724**	**3,065**
Outlays, Gross	1,036	3,747	904	3,451
Actual Offsetting Collections	(95)	(2,449)	(126)	(2,368)
Outlays, Net	941	1,298	778	1,083
Distributed Offsetting Receipts	0	(364)	0	(409)
Agency Outlays, Net	**$ 941**	**$ 934**	**$ 778**	**$ 674**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	**Rural Electrification/ Telecommunication Funds**	**Rural Electrification/ Telecommunication Funds**	**Rural Electrification/ Telecommunication Funds**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 6,090	$ 5,208	$ 5,251	$ 4,991
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	6,090	5,208	5,251	4,991
Recoveries of Prior Year Unpaid Obligations	1	488	0	543
Other Changes in Unobligated Balance	(165)	(3,287)	(12)	(3,399)
Unobligated Balance from Prior Year Budget Authority, Net	5,926	2,409	5,239	2,135
Appropriations	1,446	0	1,343	0
Borrowing Authority (Notes 16 and 17)	0	5,175	0	4,674
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,076	3,765	1,814	5,276
Total Budgetary Resources	**9,448**	**11,349**	**8,396**	**12,085**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	2,463	7,561	2,306	6,877
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	6,401	3,666	5,311	5,207
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	581	122	775	1
Unexpired Unobligated Balance, End of Year	6,982	3,788	6,086	5,208
Expired Unobligated Balance, End of Year	3	0	4	0
Total Unobligated Balance, End of Year	6,985	3,788	6,090	5,208
Total Budgetary Resources	**9,448**	**11,349**	**8,396**	**12,085**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	18	12,085	3	12,288
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	2,463	7,561	2,306	6,877
Outlays	(2,447)	(5,750)	(2,291)	(6,537)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(1)	(488)	0	(543)
Unpaid Obligations, End of Year	33	13,408	18	12,085
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(1)	0	(1)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	(5)	0	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(6)	0	(1)
Memorandum Entries:				
Obligated Balance, Start of Year	18	12,084	3	12,287
Obligated Balance, End of Year	33	13,402	18	12,084
Budget Authority and Outlays, Net:				
Budget Authority, Gross	3,522	8,940	3,157	9,950
Actual Offsetting Collections	(2,196)	(5,075)	(2,556)	(6,619)
Change in Uncollected Customer Payments From Federal Sources	0	(5)	0	0
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1,326**	**3,860**	**601**	**3,331**
Outlays, Gross	2,447	5,750	2,291	6,537
Actual Offsetting Collections	(2,196)	(5,075)	(2,556)	(6,619)
Outlays, Net	251	675	(265)	(82)
Distributed Offsetting Receipts	0	(873)	0	(806)
Agency Outlays, Net	**$ 251**	**$ (198)**	**$ (265)**	**$ (888)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 3	$ 20	$ 3	$ 16
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	3	20	3	16
Recoveries of Prior Year Unpaid Obligations	0	8	0	8
Other Changes in Unobligated Balance	0	(28)	0	(24)
Unobligated Balance from Prior Year Budget Authority, Net	3	0	3	0
Appropriations	1	0	3	0
Borrowing Authority (Notes 16 and 17)	0	2	0	1
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	26	0	30
Total Budgetary Resources	**4**	**28**	**6**	**31**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	1	11	3	11
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	0	17	0	20
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	0	17	0	20
Expired Unobligated Balance, End of Year	3	0	3	0
Total Unobligated Balance, End of Year	3	17	3	20
Total Budgetary Resources	**4**	**28**	**6**	**31**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1	47	1	55
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	1	11	3	11
Outlays	(1)	(11)	(3)	(11)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(8)	0	(8)
Unpaid Obligations, End of Year	1	39	1	47
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(1)	0	(1)
Adjustments to Uncollected Payments, Federal Sources, Start Of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(1)	0	(1)
Memorandum Entries:				
Obligated Balance, Start of Year	1	46	1	54
Obligated Balance, End of Year	1	38	1	46
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1	28	3	31
Actual Offsetting Collections	0	(44)	0	(48)
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1**	**(16)**	**3**	**(17)**
Outlays, Gross	1	11	3	11
Actual Offsetting Collections	0	(44)	0	(48)
Outlays, Net	1	(33)	3	(37)
Distributed Offsetting Receipts	0	(2)	0	(1)
Agency Outlays, Net	**$ 1**	**$ (35)**	**$ 3**	**$ (38)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary		2017 Non-Budgetary Credit Program Financing Accounts		2016 Budgetary		2016 Non-Budgetary Credit Program Financing Accounts	
	Rural Housing Funds		Rural Housing Funds		Rural Housing Funds		Rural Housing Funds	
Budgetary Resources:								
Unobligated Balance Brought Forward, October 1	$	179	$	7,683	$	180	$	4,243
Adjustment to Unobligated Balance Brought Forward, October 1		0		0		0		0
Unobligated Balance Brought Forward, October 1, as Adjusted		179		7,683		180		4,243
Recoveries of Prior Year Unpaid Obligations		35		94		14		76
Other Changes in Unobligated Balance		(115)		(848)		(102)		(619)
Unobligated Balance from Prior Year Budget Authority, Net		99		6,929		92		3,700
Appropriations		993		0		3,631		0
Borrowing Authority (Notes 16 and 17)		0		2,635		0		1,410
Contract Authority		0		0		0		0
Spending Authority from Offsetting Collections		106		2,687		135		5,322
Total Budgetary Resources		**1,198**		**12,251**		**3,858**		**10,432**
Status of Budgetary Resources:								
New Obligations and Upward Adjustments (Note 15)		1,024		9,914		3,679		2,749
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts		96		2,337		64		4,803
Exempt From Apportionment, Unexpired Accounts		0		0		0		0
Unapportioned, Unexpired Accounts		0		0		45		2,880
Unexpired Unobligated Balance, End of Year		96		2,337		109		7,683
Expired Unobligated Balance, End of Year		78		0		70		0
Total Unobligated Balance, End of Year		174		2,337		179		7,683
Total Budgetary Resources		**1,198**		**12,251**		**3,858**		**10,432**
Change in Obligated Balance:								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1		149		595		139		591
Adjustments to Unpaid Obligations, Start of Year		0		0		0		0
New Obligations and Upward Adjustments		1,024		9,914		3,679		2,749
Outlays		(1,006)		(9,785)		(3,655)		(2,669)
Actual Transfers, Unpaid Obligations		0		0		0		0
Recoveries of Prior Year Unpaid Obligations		(35)		(94)		(14)		(76)
Unpaid Obligations, End of Year		132		630		149		595
Uncollected Payments:								
Uncollected Payments, Federal Sources, Brought Forward, October 1		0		(81)		0		(81)
Adjustments to Uncollected Payments, Federal Sources, Start of Year		0		0		0		0
Change in Uncollected Payments, Federal Sources		0		4		0		0
Actual Transfers, Uncollected Payments, Federal Sources		0		0		0		0
Uncollected Payments, Federal Sources, End of Year		0		(77)		0		(81)
Memorandum Entries:								
Obligated Balance, Start of Year		149		514		139		510
Obligated Balance, End of Year		132		553		149		514
Budget Authority and Outlays, Net:								
Budget Authority, Gross		1,099		5,322		3,766		6,732
Actual Offsetting Collections		(483)		(2,917)		(548)		(5,723)
Change in Uncollected Customer Payments From Federal Sources		0		4		0		0
Recoveries of Prior Year Paid Obligations		0		0		0		0
Anticipated Offsetting Collections		0		0		0		0
Budget Authority, Net		**616**		**2,409**		**3,218**		**1,009**
Outlays, Gross		1,006		9,785		3,655		2,669
Actual Offsetting Collections		(483)		(2,917)		(548)		(5,723)
Outlays, Net		523		6,868		3,107		(3,054)
Distributed Offsetting Receipts		0		(7,202)		0		(151)
Agency Outlays, Net	**$**	**523**	**$**	**(334)**	**$**	**3,107**	**$**	**(3,205)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	**Rental Assistance Programs**	**Rental Assistance Programs**	**Rental Assistance Programs**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 11	$ 0	$ 30	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	11	0	30	0
Recoveries of Prior Year Unpaid Obligations	6	0	3	0
Other Changes in Unobligated Balance	1	0	1	0
Unobligated Balance from Prior Year Budget Authority, Net	18	0	34	0
Appropriations	1,448	0	1,428	0
Borrowing Authority (Notes 16 and 17)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	0
Total Budgetary Resources	**1,466**	**0**	**1,462**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	1,404	0	1,451	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	53	0	2	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	1	0
Unexpired Unobligated Balance, End of Year	53	0	3	0
Expired Unobligated Balance, End of Year	9	0	8	0
Total Unobligated Balance, End of Year	62	0	11	0
Total Budgetary Resources	**1,466**	**0**	**1,462**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	858	0	650	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	1,404	0	1,451	0
Outlays	(1,222)	0	(1,240)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(6)	0	(3)	0
Unpaid Obligations, End of Year	1,034	0	858	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	0	0	0
Memorandum Entries:				
Obligated Balance, Start of Year	858	0	650	0
Obligated Balance, End of Year	1,034	0	858	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,448	0	1,428	0
Actual Offsetting Collections	(1)	0	(1)	0
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Recoveries of Prior Year Paid Obligations	1	0	2	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1,448**	**0**	**1,429**	**0**
Outlays, Gross	1,222	0	1,240	0
Actual Offsetting Collections	(1)	0	(1)	0
Outlays, Net	1,221	0	1,239	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,221**	**$ 0**	**$ 1,239**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	**Rural Housing Grants**	**Rural Housing Grants**	**Rural Housing Grants**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 14	$ 11	$ 13	$ 1
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	14	11	13	1
Recoveries of Prior Year Unpaid Obligations	5	14	4	9
Other Changes in Unobligated Balance	0	(25)	0	(9)
Unobligated Balance from Prior Year Budget Authority, Net	19	0	17	1
Appropriations	62	0	60	0
Borrowing Authority (Notes 16 and 17)	0	30	0	87
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	23	0	38
Total Budgetary Resources	**81**	**53**	**77**	**126**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	71	49	63	115
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	7	4	14	11
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	3	0	0	0
Unexpired Unobligated Balance, End of Year	10	4	14	11
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	10	4	14	11
Total Budgetary Resources	**81**	**53**	**77**	**126**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	67	147	74	141
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	71	49	63	115
Outlays	(63)	(97)	(66)	(100)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(5)	(14)	(4)	(9)
Unpaid Obligations, End of Year	70	85	67	147
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(58)	0	(45)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	16	0	(13)
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(42)	0	(58)
Memorandum Entries:				
Obligated Balance, Start of Year	67	89	74	96
Obligated Balance, End of Year	70	43	67	89
Budget Authority and Outlays, Net:				
Budget Authority, Gross	62	53	60	125
Actual Offsetting Collections	(1)	(53)	0	(56)
Change in Uncollected Customer Payments From Federal Sources	0	16	0	(13)
Recoveries of Prior Year Paid Obligations	1	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**62**	**16**	**60**	**56**
Outlays, Gross	63	97	66	100
Actual Offsetting Collections	(1)	(53)	0	(56)
Outlays, Net	62	44	66	44
Distributed Offsetting Receipts	0	(6)	0	(5)
Agency Outlays, Net	**$ 62**	**$ 38**	**$ 66**	**$ 39**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	**Salaries & Expense**	**Salaries & Expense**	**Salaries & Expense**
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 41	$ 0	$ 43	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	41	0	43	0
Recoveries of Prior Year Unpaid Obligations	7	0	9	0
Other Changes in Unobligated Balance	(8)	0	(2)	0
Unobligated Balance from Prior Year Budget Authority, Net	40	0	50	0
Appropriations	226	0	226	0
Borrowing Authority (Notes 16 and 17)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	462	0	469	0
Total Budgetary Resources	**728**	**0**	**745**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	697	0	704	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	19	0	28	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	19	0	28	0
Expired Unobligated Balance, End of Year	12	0	13	0
Total Unobligated Balance, End of Year	31	0	41	0
Total Budgetary Resources	**728**	**0**	**745**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	104	0	123	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	697	0	704	0
Outlays	(684)	0	(714)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(7)	0	(9)	0
Unpaid Obligations, End of Year	110	0	104	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(12)	0	(10)	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	(2)	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(12)	0	(12)	0
Memorandum Entries:				
Obligated Balance, Start of Year	92	0	113	0
Obligated Balance, End of Year	98	0	92	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	688	0	695	0
Actual Offsetting Collections	(462)	0	(466)	0
Change in Uncollected Customer Payments From Federal Sources	0	0	(2)	0
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**226**	**0**	**227**	**0**
Outlays, Gross	684	0	714	0
Actual Offsetting Collections	(462)	0	(466)	0
Outlays, Net	222	0	248	0
Distributed Offsetting Receipts	0	0	(1)	0
Agency Outlays, Net	**$ 222**	**$ 0**	**$ 247**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 424	$ 409	$ 429	$ 552
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	424	409	429	552
Recoveries of Prior Year Unpaid Obligations	20	15	29	31
Other Changes in Unobligated Balance	(26)	(207)	(7)	(326)
Unobligated Balance from Prior Year Budget Authority, Net	418	217	451	257
Appropriations	84	0	(33)	0
Borrowing Authority (Notes 16 and 17)	0	196	0	244
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	208	315	177	191
Total Budgetary Resources	**710**	**728**	**595**	**692**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	281	262	171	283
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	286	305	324	236
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	130	161	87	173
Unexpired Unobligated Balance, End of Year	416	466	411	409
Expired Unobligated Balance, End of Year	13	0	13	0
Total Unobligated Balance, End of Year	429	466	424	409
Total Budgetary Resources	**710**	**728**	**595**	**692**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	456	210	448	250
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	281	262	171	283
Outlays	(228)	(266)	(134)	(292)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(20)	(15)	(29)	(31)
Unpaid Obligations, End of Year	489	191	456	210
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(15)	(231)	(1)	(241)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(2)	(59)	(14)	10
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(17)	(290)	(15)	(231)
Memorandum Entries:				
Obligated Balance, Start of Year	441	(21)	447	9
Obligated Balance, End of Year	472	(99)	441	(21)
Budget Authority and Outlays, Net:				
Budget Authority, Gross	292	511	144	435
Actual Offsetting Collections	(208)	(337)	(166)	(240)
Change in Uncollected Customer Payments From Federal Sources	(2)	(59)	(14)	10
Recoveries of Prior Year Paid Obligations	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**82**	**115**	**(36)**	**205**
Outlays, Gross	228	266	134	292
Actual Offsetting Collections	(208)	(337)	(166)	(240)
Outlays, Net	20	(71)	(32)	52
Distributed Offsetting Receipts	0	(65)	0	(144)
Agency Outlays, Net	**$ 20**	**$ (136)**	**$ (32)**	**$ (92)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 6,907	$ 14,415	$ 6,145	$ 11,472
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	6,907	14,415	6,145	11,472
Recoveries of Prior Year Unpaid Obligations	165	959	139	986
Other Changes in Unobligated Balance	(327)	(5,367)	(152)	(5,844)
Unobligated Balance from Prior Year Budget Authority, Net	6,745	10,007	6,132	6,614
Appropriations	5,312	0	7,495	0
Borrowing Authority (Notes 16 and 17)	0	12,717	0	10,173
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,865	7,805	2,608	12,503
Total Budgetary Resources	**14,922**	**30,529**	**16,235**	**29,290**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	7,114	22,912	9,328	14,875
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	6,945	7,174	5,886	11,137
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	745	443	908	3,278
Unexpired Unobligated Balance, End of Year	7,690	7,617	6,794	14,415
Expired Unobligated Balance, End of Year	118	0	113	0
Total Unobligated Balance, End of Year	7,808	7,617	6,907	14,415
Total Budgetary Resources	**14,922**	**30,529**	**16,235**	**29,290**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	3,928	21,113	3,746	20,284
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
New Obligations and Upward Adjustments	7,114	22,912	9,328	14,875
Outlays	(6,687)	(19,656)	(9,007)	(13,060)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(165)	(959)	(139)	(986)
Unpaid Obligations, End of Year	4,190	23,410	3,928	21,113
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(27)	(534)	(11)	(561)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(2)	(64)	(16)	27
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(29)	(598)	(27)	(534)
Memorandum Entries:				
Obligated Balance, Start of Year	3,901	20,579	3,735	19,723
Obligated Balance, End of Year	4,161	22,812	3,901	20,579
Budget Authority and Outlays, Net:				
Budget Authority, Gross	8,177	20,522	10,103	22,676
Actual Offsetting Collections	(3,446)	(10,875)	(3,863)	(15,054)
Change in Uncollected Customer Payments From Federal Sources	(2)	(64)	(16)	27
Recoveries of Prior Year Paid Obligations	2	0	2	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**4,731**	**9,583**	**6,226**	**7,649**
Outlays, Gross	6,687	19,656	9,007	13,060
Actual Offsetting Collections	(3,446)	(10,875)	(3,863)	(15,054)
Outlays, Net	3,241	8,781	5,144	(1,994)
Distributed Offsetting Receipts	0	(8,512)	(1)	(1,516)
Agency Outlays, Net	**$ 3,241**	**$ 269**	**$ 5,143**	**$ (3,510)**

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