USDA United States Department of Agriculture

Rural Development's Financial Statements for Fiscal Years 2018 and 2017

Audit Report 85401-0009-11

November 2018

OFFICE OF INSPECTOR GENERAL

Rural Development's Financial Statements for Fiscal Years 2018 and 2017

Audit Report 85401-0009-11

OIG audited the consolidated financial statements of Rural Development for fiscal years 2018 and 2017.

OBJECTIVE

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

REVIEWED

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

RECOMMENDS

This report does not contain recommendations.

WHAT OIG FOUND

Rural Development received an unmodified opinion for the Office of Inspector General's audit of Rural Development's consolidated financial statements. We determined that the agency's financial statements present fairly Rural Development's financial position as of September 30, 2018 and 2017, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

Our consideration of Rural Development's internal control over financial reporting identified no material weaknesses and our consideration of compliance with laws and regulations noted no instances of noncompliance.

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

DATE: November 8, 2018

AUDIT NUMBER: 85401-0009-11

TO: Anne Hazlett
Assistant to the Secretary for Rural Development

ATTN: Tony Bainbridge
Chief Financial Officer
Rural Development

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2018 and 2017

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2018 and 2017. 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.

Table of Contents

Independent Auditor's Report

Anne Hazlett
Assistant to the Secretary
for Rural Development

The Department of Agriculture's Office of Inspector General audited the consolidated financial statements of Rural Development for fiscal years 2018 and 2017. We also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct effect on the determination of material financial statement amounts and disclosures on these consolidated financial statements.

Exhibit A 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 comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost and changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 19-01, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 19-01 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, 2018 and 2017, 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. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Required Supplemental Information (RSI)[1] be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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. Accordingly, we do not express an opinion on the effectiveness of Rural Development's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

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

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

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

OMB Bulletin 19-01 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 with Laws, Regulations, Contracts, and Grant Agreements

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

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

Management's Responsibility for Internal Control and Compliance

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

Auditor's Responsibilities

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

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Rural Development. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2018. We caution that noncompliance may occur and not be detected by these tests.

Management's Response

Management's response to the report is presented in Exhibit 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 8, 2017. The status is presented in Exhibit A.

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

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

Gil H. Harden

Gil H. Harden
Assistant Inspector General for Audit
Washington, D.C.
November 6, 2018

Abbreviations

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

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

Report 85401-0007-11, Rural Development's Financial Statements for Fiscal Years 2017 and 2016, dated November 8, 2017.

Reported Noncompliance

In audit report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act*, issued November 2017, OIG identified USDA's noncompliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). Rural Development's noncompliance with two provisions of the DATA Act was carried forward as a noncompliance in Report 85401-0007-11. Rural Development did not submit fiscal year 2017 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.

Status

Closed. Final action for the five recommendations from Audit Report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act*, was achieved during fiscal year 2018.

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

Closed. Final action on the recommendation was achieved on May 24, 2018.

Reported Noncompliance

In Report 04601-0002-31, *Rural Development's Single Family Housing Direct Loan Program Credit Reporting*, issued March 2016, the Office of Inspector General identified noncompliance with the Debt Collection and Improvement Act of 1996 and the Fair Credit Reporting Act. This noncompliance was carried forward as a noncompliance in the Compliance and Other Matters portion of Report 85401-0006-11.

Status

Closed. Final action on the last of the nine recommendations was achieved on August 1, 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

Closed. Final action on the recommendation was achieved on May 24, 2018.

Exhibit B: Agency's Response

USDA

United States Department of Agriculture

Rural Development
Business Center

Chief Financial Officer

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11/6/2018

TO: Ms. Marlene Parnacott
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

Tony Bainbridge
Chief Financial Officer

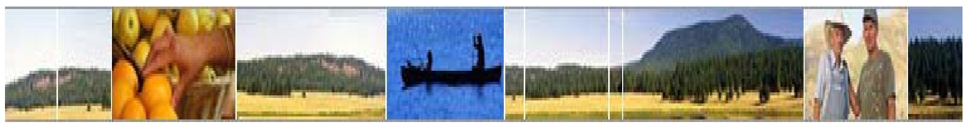
SUBJECT: Response to Draft Audit Report on
Rural Development's Fiscal Year 2018
Financial Statements

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2018 Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree with their contents.

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

RURAL DEVELOPMENT'S
FISCAL YEARS 2018 and 2017
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT



"Committed to the future of rural communities"

Fiscal Years
2018 and 2017

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, 2018 AND 2017

TABLE OF CONTENTS

Rural Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

Mission Statement

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

Core Values

Ensure Rural Development 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 Utilities Service (RUS), Rural Business-Cooperative Service (RBS), and Rural Housing Service (RHS). Rural Development programs are delivered through the National Office, state offices, and a network of field offices. During this past fiscal year, Rural Development has opened the Innovation Center, a focused team of staff from around the nation that works to identify best practices and bring continuous improvement in program delivery. Rural Development is supported by various internal organizations that provide administrative, accounting, budget, and loan servicing support for all programs, functions which are being organized into the Business Center.

Rural Development Programs Performance

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

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2018 than in FY 2017. There was an increase in the direct portfolio from $90.9 billion to $92.4 billion and an increase in the guaranteed portfolio from $114.4 billion to $117.4 billion.

Total Loan Portfolio as of September 30, 2018
FY's 2016 Through 2018
(Dollars in Billions)

	FY 2016	FY 2017	FY 2018
Direct Loans			
Water & Environmental	$12.6	$12.6	$12.8
Electric	41.8	41.7	42.6
Telecommunications	4.0	3.6	3.2
Business Programs	0.8	0.8	0.8
Single Family Housing	14.6	14.3	14.1
Multi-Family Housing	10.5	10.4	10.3
Community Facilities	6.3	7.5	8.6
Total Direct	90.6	90.9	92.4
Guaranteed Loans			
Water & Environmental	$0.1	$0.1	$0.1
Electric	0.2	0.2	0.2
Business Programs	4.5	4.8	5.5
Single/Multi-Family Housing	103.3	108.3	110.6
Community Facilities	1.1	1.0	1.0
Total Guaranteed	109.2	114.4	117.4
Total Loan Portfolio	**$199.8**	**$205.3**	**$209.8**

Rural Development Programs

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

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

Housing and community facilities programs ensure rural families have access to safe, well-built, affordable homes and support an infrastructure needed to make rural communities attractive to small business owners, employees and families. Housing and community facilities programs provide loans, grants and rental assistance to rural low and very low-income residents for housing, and funding to support rural infrastructure and community services development. These programs are essential to rural America.

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

RURAL DEVELOPMENT PERFORMANCE SCORECARD FOR FY 2018

	FY 2018 Target	FY 2018 Actual	Results
Electric Loans – Direct Federal Financing Bank (FFB)			
Number of borrowers' consumers receiving new and/or improved electric facilities (millions)	4.5	7.534	Met
Telecommunications Loans			
Number of borrowers' subscribers receiving new or improved telecommunication services (millions)	.170	.045	Unmet
Water and Environmental			
Population receiving new or improved services from agency-funded water and wastewater facilities or projects (millions)	2.237	2.918	Met
Rural Business-Cooperative Programs (Grants, Direct & Guaranteed Loans)			
Number of jobs created or saved through USDA financing of businesses	42,205	46,624	Met
Single Family Housing (SFH)			
Homeownership Opportunities Provided Direct Loans Guaranteed Loans	6,993 164,829	7,199 115,864	Unmet
Community Facilities (CF)			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	6.8%	9.45%	Met
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	4.3%	5.52%	Met
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	6.8%	8.42%	Met

Rural Development did not fully meet its target for Telecommunications loans or Broadband loans within an allowable variance of +/-5 percent. Several Infrastructure and Broadband loan applications were determined not to meet requirements. In addition, demand for funding from the Infrastructure and Broadband loan programs have been greatly reduced due to the significant amount of alternative grant funding available through the Federal Communications Commission (FCC) Connect America Fund II Auction and funding from the FY18 Omnibus for the RUS Broadband Pilot Program General Provision (GP) 779.

The Rural Development Homeownership target measure was not met. In 2018, Section 502 guaranteed loan obligations totaled $16.8 billion for 115,864 loans; approximately 70 percent of the funding cap. The primary factors affecting obligations were an increasing interest rate environment, lack of affordable housing inventory and record high home prices.

Future Opportunities and Challenges

Rural communities continue to be impacted by economic challenges, compounded by aging infrastructure, poor e-Connectivity and the ongoing epidemic of opioid misuse. Through its field offices across the nation, USDA Rural Development is partnering with community leaders - in both the public and private sector – to find new, innovative ways to improve the economic health of rural America.

The key to success lies in our local relationships and partnerships with the public and private sector. These stakeholders, who are committed to development and growth in their home towns, are the catalyst that brings all the right economic development partners to the table. Through the long-standing partnerships between Rural Development, state and local government, nonprofit economic developers, and our partners in the business and lending communities, we can come together to find common-sense solutions. These solutions need to come from the local level and be tailored to fit specific opportunities or challenges, rather than a one-size-fits-all approach.

In order to achieve success and adapt to the rapidly evolving conditions in rural communities, the solutions that emerge also need to be innovative in their design and execution. USDA Rural Development can bring positive change to our rural communities. When leveraged with local and state programs, we can develop innovative solutions to overcome the myriad of challenges that rural villages, towns, and communities across the country are facing. Additionally, to enhance the quality of life in rural communities, the Innovation Center works to transform rural communities through strategic partnerships, data analytics and evaluation, and regulatory reform.

The lack of access to modern infrastructure is a foundational challenge faced by rural and frontier communities. The basic underpinnings of an efficient and effective electric grid; modern water and wastewater treatment and distribution systems; and access to high speed broadband connectivity are critical components for fostering a climate of growth in these communities.

Rural Development is providing broadband infrastructure service in rural areas that are significantly unserved at reasonable rates and terms that often are not available from the private sector. In some rural communities, Rural Development Broadband programs are the only source of financing that will provide residents in rural America with access to modern broadband capabilities.

Addiction is having a critical impact on the health and quality of life of our rural nation. Rural Development is prioritizing investments that can positively impact a community's economic health and provide an environment that removes the conditions that contribute to opioid addiction to assist in USDA's efforts to address opioid addiction.

In September, Hurricane Florence hit the Carolinas and brought severe flooding to rural communities in the region. At Secretary Perdue's request, Rural Development worked with its borrowers to provide loan deferments and temporary additional financing to provide assistance and stability in the wake of the disaster.

Through the continued efforts of our dedicated employees in the national office and in field offices across the country, we will seek to achieve Secretary Perdue's goal of being the most efficient, most effective, and most customer-focused department in the federal government. We will take strides to improve economic prosperity in rural America, by investing in **infrastructure**, strengthening our **partnerships**, and helping rural communities find **innovative** solutions to their local concerns.

Financial Highlights

Fiscal Year Ending September 30th (Dollars in Millions)	FY 2018	FY 2017
Total Assets	$107,288	$108,344
Total Liabilities	$102,713	$104,789
Total Net Position	$4,575	$3,555
Total Net Cost of Operations	$3,263	$2,574
Total Budgetary Resources	$36,920	$45,451

Rural Development had total assets of $107,288 million at the end of FY 2018, down from $108,344 million. A $2,639 million decrease in Fund Balance with Treasury combined with a $1,579 million increase in the Loans Receivable and Related Foreclosed Property were the most significant lines in the asset category affecting the change. During FY 2018 the agency repaid more debt across all programs when compared with the previous year resulting in lower cash balances. The increase in the portfolio was mostly attributed to the FFB Electric loans, which has been trending up over the last several years.

Total Liabilities of $102,713 million in FY 2018 decreased from $104,789 million in FY 2017, a decrease of $2,076 million, which is mostly attributed to less debt to Treasury being reported by the Agency due to borrowing repayments.

Total Net Position increased $1,020 million in FY 2018 as compared to FY 2017, an overall increase of approximately 29 percent. The most significant change was a result of an increase in appropriations received in the current year. In FY 2018 Rural Development received a significant increase in the Water and Environmental (WEP) loan program combined with funding received for the new RUS Broadband Pilot Program.

Total Net Cost of Operations increased $689 million from FY 2017. This change is attributed to an increase in the amortized amount in the subsidy cost allowance related to the reestimate process primarily in the Rural Electric and Telecommunication Program (RET).

The decrease of $8,531 million in Budgetary Resources is due to increases in debt repayments and a decrease in reestimates.

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.

Rural Development Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA, Section 803(a) of the Federal Financial Management Improvement Act (FFMIA), and in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, for the period ended September 30, 2018. Based on the results of the evaluations, Rural Development provides reasonable assurance that the overall system of internal controls is operating effectively, except for the deficiencies discussed below.

Section 2 of the FMFIA focuses on the assessment of the adequacy of management controls to manage the risk associated with a given program and to provide reasonable assurance that obligations/costs comply with applicable laws and regulations; that Federal assets are safeguarded against fraud, waste and mismanagement; and that transactions are properly recorded and accounted for.

A material weakness identifies an instance in which the management controls are not sufficient to provide the level of assurance required by Section 2 and requires major milestones for corrective action.

In FY 2018, no material weaknesses were identified. Three existing significant deficiencies have reached final action and closure, and two new significant deficiencies were identified as discussed below.

The three existing significant deficiencies reaching final action and closure are:

1. The FY 2017 OMB Circular No. A-123 Appendix A review found the National Financial and Accounting Operations Center (NFAOC) Debt Collection process was not in compliance with the Digital Accountability and Transparency Act (DATA Act), as delinquent debt was being reported at 180 days. The NFAOC has developed and implemented a process to report delinquent debt at 120 days, and the deficiency has been closed.

2. FY 2016 Rural Development Financial Statement Audit No. 85401-0006-11 and FY 2015 Rural Development Financial Statement Audit No. 85401-0005-11. The Office of Inspector General (OIG) found that Rural Development needed improvements over credit reform model implementation processes and internal controls; and review and approval processes needed improvement; and that Rural Development did not have fully developed policies and procedures for the review and testing of new econometric models. Rural Development has developed a Standard Operating Procedures document to ensure controls over the model implementation process and the results are reliable and complete. A Credit Reform Assessment Team has been established to ensure effective internal controls in accordance with OMB Circular No. A-123 and the FMFIA. The Office of the Chief Financial Officer (OCFO) accepted final action on the recommendations of both audits on May 24, 2018.

The two new significant deficiencies are discussed below, and independent reviews are being performed on both.

1. The FY 2018 Finance Office-Procurement Activity Management Control Review (MCR) found significant deficiencies in Rural Development's management and oversight of SFH procurement processes that led to several unauthorized commitments related to SFH foreclosure activity. A corrective action plan is being developed.
2. The FY 2018 Information Technology Office-Procurement Activity MCR found significant deficiencies in the oversight of the Comprehensive Loan Program (CLP) Initiative through the mismanagement of multiple contracts and invoices, in addition to several unauthorized commitments. A corrective action plan is being developed.

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 2018, no new non-conformances were identified. One existing significant deficiency is in the process of closing as discussed below.

The FY 2009 OIG Audit No. 85401-17-FM noted the RUS Legacy system was on antiquated software and needed to be retired. The RUS Legacy system was converted to the more modern, web based Commercial Loan Servicing System (CLSS) on September 26, 2018 and is awaiting final closure by the OCFO.

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.

In 2009, Rural Development developed a large Information Technology (IT) investment called the CLP, a multi-year funding initiative to modernize Rural Development's application portfolio, and substantially modernize and streamline Rural Development's program delivery systems to benefit internal and external 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 Rural Development loan servicing systems, in addition to their front-end applications, contain functionality and/or information for loan applications, loan characteristics, borrower statistical information, obligation and disbursement requests, borrower unpaid balances, borrower history related to repayments, payment logic, edits and servicing transactions to conform to agency regulations, loan's performance, and credit reform cohort indicators. There are five major loan servicing systems currently in use by Rural Development that service all Rural Development programs, and one fund control system that manages all allotments, obligations, and disbursements; as listed below.

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

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

CLSS - The CLSS system supports the Electric and Telecommunications direct loan and grant programs and some WEP, CF and BP. Full systems migration from the RUS Legacy system to the CLSS system has been completed.

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 has been 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 Rural Development Multi-Family Housing (MFH) loan and grant programs to include the Rental Assistance (RA) programs.

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

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

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:

- Rural Development modernized the CLSS system by converting various RUS program portfolios from an old legacy system and adding functionality to meet Federal financial standards. During 2018, Rural Development completed its initiative to retire the RUS Legacy system, which allows all 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 Rural Development financial and accounting processes can properly communicate with the USDA core FMMI financial system. Analyzing business requirements to utilize a Rural Development 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, Rural Development 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, 2018. 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. Rural Development reports no new non-compliances during FY 2018. Two existing non-compliances reached final action and closure.

1. The FY 2016 OIG Audit No. 04601-0002-31 found Rural Development is not compliant with the Debt Collection Improvement Act (DCIA) and the Fair Credit Reporting Act (FCRA), and recommended Rural Development identify and correct inaccurate borrower accounts, develop a plan to identify and correct errors, and update guidance to eliminate future errors. Rural Development has developed a plan to address the listed issues. Procedures were updated to ensure Rural Development reports the necessary loans to the credit bureaus and monitor procedures for file transmissions and Agency

agreements. The OCFO accepted final action on August 1, 2018 for all recommendations for this audit.

2. Rural Development was non-compliant with the DATA Act as it was unable to submit all the required files. Rural Development was able to implement manual reporting processes and comply with the requirements by December 31, 2017.

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.

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 Rural Development, 30 programs received OMB waivers from conducting payment recapture audits due to cost effectiveness, three programs participated in the Department's recovery audit program referred to as the Supplier Credit Recovery Audit, and four programs developed internal payment recapture plans, which were approved by the 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. Management has reviewed all applicable programs and activities to identify any area that may be susceptible to significant improper payments and no deficiencies were identified.

Limitations on Financial Statements

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

DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2018 AND 2017 (In Millions)		
	2018	**2017**
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 18,793	$ 21,432
Accounts Receivable, Net (Note 5)	0	0
Other (Note 8)	0	0
Total Intragovernmental	18,793	21,432
Cash and Other Monetary Assets (Note 4)	46	41
Loans Receivable and Related Foreclosed Property, Net (Note 6)	88,372	86,793
General Property, Plant and Equipment, Net (Note 7)	40	41
Other (Note 8)	37	37
Total Assets	**107,288**	**108,344**
Liabilities (Note 9):		
Intragovernmental:		
Accounts Payable	0	0
Debt (Note 10)	93,353	95,010
Resources Payable to Treasury	7,403	7,892
Downward Reestimates Payable to Treasury General Fund	951	990
Other (Note 11)	17	22
Total Intragovernmental	101,724	103,914
Accounts Payable	26	28
Loan Guarantee Liability (Note 6)	282	574
Federal Employee and Veteran Benefits (Note 9)	36	36
Other (Note 11)	645	237
Total Liabilities	**102,713**	**104,789**
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	5,126	3,521
Cumulative Results of Operations	(551)	34
Total Net Position	**4,575**	**3,555**
Total Liabilities and Net Position	**$ 107,288**	**$ 108,344**

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, 2018 AND 2017 (In Millions)		
	2018	**2017**
Gross Costs (Note 13)		
Borrowing Interest Expense	$ 3,459	$ 3,657
Grants	1,955	1,999
Loan Cost Subsidies	(94)	(346)
Other	1,786	1,321
Total Gross Costs	**7,106**	**6,631**
Less: Earned Revenue (Note 13)	3,843	4,057
Net Cost of Operations	**$ 3,263**	**$ 2,574**

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, 2018 AND 2017
(In Millions)

	2018	2017
Unexpended Appropriations:		
Beginning Balances	$ 3,521	$ 3,187
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	$ 3,521	$ 3,187
Budgetary Financing Sources:		
Appropriations Received	5,869	4,952
Appropriations Transferred In/Out	(2)	(5)
Other Adjustments	(41)	(28)
Appropriations Used	(4,221)	(4,585)
Total Budgetary Financing Sources	1,605	334
Total Unexpended Appropriations	$ **5,126**	$ **3,521**
Cumulative Results of Operations:		
Beginning Balances	$ 34	$ (548)
Adjustments:		
Changes in Accounting Principle	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$** 34	**$** (548)
Budgetary Financing Sources:		
Other Adjustments	(4)	(137)
Appropriations Used	4,221	4,585
Nonexchange Revenue	0	0
Transfers-In/Out Without Reimbursement	108	45
Other Financing Sources (Nonexchange):		
Transfers-In/Out Without Reimbursement	0	0
Imputed Financing	160	169
Other	(1,807)	(1,506)
Total Financing Sources	**2,678**	**3,156**
Net Cost of Operations	(3,263)	(2,574)
Net Change	(585)	582
Cumulative Results of Operations	**$ (551)**	$ **34**
Net Position	**$ 4,575**	**$ 3,555**

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, 2018 AND 2017
(In Millions)

	2018		2017	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 7,808	$ 7,617	$ 6,907	$ 14,415
Recoveries of Prior Year Unpaid Obligations	307	667	165	959
Other Changes in Unobligated Balance	(261)	(5,107)	(327)	(5,367)
Unobligated Balance from Prior Year Budget Authority, Net	7,854	3,177	6,745	10,007
Appropriations	5,957	0	5,312	0
Borrowing Authority (Notes 15 and 16)	0	13,670	0	12,717
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,595	3,667	2,865	7,805
Total Budgetary Resources	**$ 16,406**	**$ 20,514**	**$ 14,922**	**$ 30,529**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	$ 7,111	$ 15,535	$ 7,114	$ 22,912
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	3,210	4,497	6,945	7,174
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	5,985	482	745	443
Unexpired Unobligated Balance, End of Year	9,195	4,979	7,690	7,617
Expired Unobligated Balance, End of Year	100	0	118	0
Total Unobligated Balance, End of Year	9,295	4,979	7,808	7,617
Total Budgetary Resources	**$ 16,406**	**$ 20,514**	**$ 14,922**	**$ 30,529**
Outlays, Net				
Outlays, Net (total)	3,140	3,116	3,241	8,781
Distributed Offsetting Receipts	(4)	(1,684)	0	(8,512)
Agency Outlays, Net	**$ 3,136**	**$ 1,432**	**$ 3,241**	**$ 269**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

RURAL DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018 AND 2017 (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.

NOTE 1: Continued
Rural Development List of Major Programs

Rural Housing and Community Facilities Programs

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

Rural Business and Cooperative Programs

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

Rural Utilities Programs

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

NOTE 1: Continued

Basis of Accounting and Presentation

The accounting principles and standards applied in preparing the financial statements are in accordance with guidance from the Federal Accounting Standards Advisory Board (FASAB), the Director of OMB and Comptroller General, which constitute generally accepted accounting principles for the Federal Government and its component entities. Additionally, Rural Development applies guidelines from the Federal Credit Reform Act of 1990 (Credit Reform) contained in the Omnibus Budget Reconciliation Act of 1990.

The amounts in the FY 2017 column of the financial statements have been reclassified due to evolving changes in the OMB Circular A-136, *Financial Reporting Requirements* guidance. This reclassification will facilitate a meaningful comparison between FY 2018 and FY 2017. Footnotes have also been reclassified and additional information has been added to the applicable changes in guidance or presentation preferences.

During FY 2018, SFFAS No. 53, Budget and Accrual Reconciliation (BAR) was implemented **(Note 22)** and replaced the Reconciliation of Net Cost to Budget. The SFFAS No. 53 requires federal entities to provide a reconciliation of budgetary and financial (proprietary) accounting. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period.

Rural Development utilizes cash, accrual, and budgetary accounting basis while preparing the financial statements. The cash accounting basis recognizes Pre-Credit Reform and Credit Reform non-federal transactions, except for the accrual of interest related to borrower loans. Under the cash method, Rural Development recognizes revenues when cash is received and expenses when they are paid. Federal transactions utilize the accrual accounting basis. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of federal funds. Rural Development eliminates all significant interfund and intrafund balances and transactions in the consolidation of all financial statements with the exception of the Statement of Budgetary Resources, which is presented on a combined basis.

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of Rural Development and, as such, are not recognized on the Balance Sheet **(Note 23)**.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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 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

NOTE 1: Continued

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 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.

NOTE 1: Continued

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.

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.

NOTE 1: Continued

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 20)**. An expenditure or an obligation cancellation reduces an undelivered order. Rural Development treats appropriated funds, which are not obligated, as unobligated amounts. At the end of the fiscal year, certain multi-year appropriations, which have unobligated balances, remain available for obligation in future periods. Rural Development returns unobligated appropriations to Treasury when their period of availability cancels.

Intragovernmental Financial Activities

Rural Development's mission area is an integral part of the operations of the USDA and may be subject to financial and managerial decisions and legislative requirements, which are beyond the control of the Agency's management. Consequently, day-to-day operations may not be conducted as they would if Rural Development was a separate and independent entity.

USDA provides mission areas with an allocation of departmental non-reimbursed appropriated costs to include in their financial statements. These costs affect the Statement of Net Cost and Statement of Changes in Net Position.

Rural Development does not stipulate that the financial statements report the mission area's proportionate share of the Federal deficit or of public borrowing, including interest. Financing for budget appropriations could derive from tax revenues or public borrowing or both. The ultimate source of this financing, whether from tax revenues or public borrowing, has not been specifically allocated to Rural Development.

NOTE 1: Continued

Allocation Transfers

Rural Development is a party to allocation transfers with other federal agencies as both a transferring entity and a receiving entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account is created in the U.S. Treasury as a subset for tracking and reporting purposes. This account credits all allocation transfers of balances, and charges subsequent obligations and outlays incurred by the child entity as they execute the delegated activity on behalf of the parent entity. All financial activity related to allocation transfers appears in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Rural Development allocates funds, as the parent, to the Small Business Administration and Department of Housing and Urban Development. Rural Development receives allocation transfers, as the child, from the Economic Development Administration, Appalachian Regional Commission, and Delta Regional Authority.

NOTE 2: NON-ENTITY ASSETS

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

	FY 2018	FY 2017
Intragovernmental		
Fund Balance with Treasury	$ 0	$ 0
Total Intragovernmental	**0**	**0**
Cash and Other Monetary Assets	**46**	**41**
Total Non-Entity Assets	**46**	**41**
Total Entity Assets	107,242	108,303
Total Assets	**$ 107,288**	**$ 108,344**

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 2018) 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 2018 and 2017, there were approximately $140 million and $121 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 2018	FY 2017
Status of Fund Balance with Treasury (FBWT)		
Unobligated Balance:		
Available	$ 7,707	$ 14,119
Unavailable	6,567	1,306
Obligated Balance Not Yet Disbursed	29,855	26,973
Borrowing Authority Not Yet Converted to Fund Balance	(25,304)	(20,926)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(33)	(41)
Temporary Reduction of New Budget Authority	2	1
Non-Budgetary Fund Balance with Treasury	(1)	0
Total	**$ 18,793**	**$ 21,432**

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, 2018.

	FY 2018	FY 2017
Cash and Other Monetary Assets		
Cash	$ 46	$ 41
Foreign Currency	0	0
Other Monetary Assets	0	0
Total Cash and Other Monetary Assets	**$ 46**	**$ 41**

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

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

Criminal Restitution

The outstanding balance for FY's 2018 and 2017 criminal restitution was approximately $1 million.

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 $88,372 million in outstanding credit program net receivables, and the guaranteed program has an outstanding guarantee of $117,373 million with a liability of $282 million, as of September 30, 2018.

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

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

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

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

NOTE 6: Continued

Loan Program Characteristics

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

NOTE 6: Continued

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

NOTE 6: Continued

Other Information Related to Credit Programs

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

For FY's 2018 and 2017, Rural Housing program properties consist primarily of 1,238 and 1,145 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 2018 and 2017 was 22,789 and 23,111, respectively. Rural Development also allows leasing certain properties to eligible individuals.

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

Interest Credit
Approximately $14,954 million and $15,375 million of the Rural Housing borrowers' unpaid loan principal, as of September 30, 2018 and 2017, 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 $709 million and $744 million higher for FY's 2018 and 2017, respectively.

Also, at the end of FY's 2018 and 2017, the Rural Development housing portfolio contained approximately 55,938 and 58,254 restructured loans, respectively. The outstanding unpaid principal balance was $2,869 million in FY 2018 and $2,900 million in FY 2017.

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 2018. 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 post-1991 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are estimated annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows. Reestimates are revisions of the subsidy cost estimate of a cohort (or risk category) based on information about the actual performance and/or estimated changes in future cash flows of the cohort. A cohort refers to the fiscal year of obligation for direct loan obligations, or loan guarantee commitments of a specific program. In FY's 2018 and 2017, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY's 2018 and 2017, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. Defaults, fees, and other collections are considered significant assumptions within the guaranteed housing and business and industry program estimates.

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

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

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

Valuation Methodology for Direct Loans and Loan Guarantees
For direct loans made pre-1992, Rural Development uses the Net Realizable Value methodology to value the remaining interest and principal portfolio. Direct loans and loan guarantees made post-1991 are governed by the Federal Credit Reform Act of 1990, as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at net present value of future cash flows.
Additionally, the net present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the direct loan or guaranteed loan is disbursed.

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 2018 and FY 2017. Loans receivable and related foreclosed property, net balances at the end of FY 2018 were $88,372 million compared to $86,793 million at the end of FY 2017. Defaulted guaranteed loans were $237 million in FY 2018 as compared to $249 million in FY 2017.

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

[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 2017	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [2]	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**

[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 2018 to FY 2017. The subsidy cost allowance in FY 2018 was $3,176 million compared to $3,406 million in FY 2017, a decrease of $230 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2018**	**FY 2017**
Beginning Balance of the Subsidy Cost Allowance	$ 3,406	$ 3,556
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	(205)	(158)
Default costs (net of recoveries)	102	104
Fees and other collections	(10)	(14)
Other subsidy costs	(43)	(56)
Total of the above subsidy expense components	(156)	(124)
Adjustments:		
Loan modifications	0	3
Fees received	74	64
Loans written off	(376)	(306)
Subsidy allowance amortization	(96)	(200)
Other	86	78
Ending balance of the subsidy cost allowance before reestimates	2,938	3,071
Add or subtract reestimates by component:		
Interest rate reestimates	608	213
Technical/default reestimates	(370)	122
Total of the above reestimate components	238	335
Ending Balance of the Subsidy Cost Allowance	**$ 3,176**	**$ 3,406**

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 2018 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 2018 and 2017 by program. Total direct loan subsidy expense in FY 2018 was $82 million compared to $214 million in FY 2017, a decrease of $132 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 2018										
Housing	$ 23	$ 50	$ 0	$ 9	$ 82	$ 0	$ 16	$ 30	$ 46	$ **128**
Community Facility	(155)	43	0	5	(107)	0	43	91	134	**27**
Electric	(126)	4	(10)	(30)	(162)	0	538	(489)	49	**(113)**
Telecommunications	0	4	0	(4)	0	0	(36)	(26)	(62)	**(62)**
Water & Environmental	43	1	0	(23)	21	0	50	23	73	**94**
Intermediary Relending	5	0	0	0	5	0	(2)	1	(1)	**4**
Business and Industry	1	0	0	0	1	0	0	0	0	**1**
Economic Development	4	0	0	0	4	0	(1)	0	(1)	**3**
Total Subsidy Expense, Direct	**$ (205)**	**$ 102**	**$ (10)**	**$ (43)**	**$ (156)**	**$ 0**	**$ 608**	**$ (370)**	**$ 238**	**$ 82**
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 & 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**

NOTE 6: Continued

Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4.** Direct loans disbursed in FY 2018 was $6,830 million compared to $6,925 million in FY 2017, a decrease of $95 million.

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

	FY 2018	FY 2017	FY 2018 Over/Under FY 2017
Housing	$ 1,185	$ 1,123	$ 62
Community Facility	1,354	1,638	(284)
Electric	3,236	3,045	191
Telecommunications	232	216	16
Water and Environmental	766	851	(85)
Intermediary Relending	19	17	2
Business and Industry	6	5	1
Economic Development	32	30	2
Total Direct Loans Disbursed	**$ 6,830**	**$ 6,925**	**$ (95)**

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 2018 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 2018 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 2018	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	-2.37	5.13	0.00	1.09	3.85
Section 504 Housing Repair	15.65	-0.02	0.00	-3.30	12.33
Single Family Housing Credit Sales	-11.90	2.39	0.00	4.06	-5.45
Section 514 Farm Labor Housing	27.11	0.28	0.00	-0.67	26.72
Section 515 Multi-Family Housing	26.57	0.73	0.00	-0.99	26.31
Section 523 Self-Help Housing Land Development	2.55	4.74	0.00	0.06	7.35
Section 524 Site Development	0.45	0.00	0.00	0.71	1.16
Multi-Family Housing Credit Sales			Not Funded		
Multi-Family Housing Relending	29.50	0.00	0.00	-0.01	29.49
Multi-Family Housing Revitalization Seconds	54.28	0.46	0.00	-0.06	54.68
Multi-Family Revitalization Zero	48.75	0.37	0.00	-0.20	48.92
Community Facilities	-12.99	3.48	0.00	1.41	-8.10
Community Facilities Relending			Not Funded		
Distance Learning and Telemedicine			Not Funded		
Broadband Treasury Rate	0.14	16.74	0.00	-0.13	16.75
Water and Environmental	4.01	0.08	0.00	-3.92	0.17
Electric Hardship			Not Funded		
FFB Electric	-4.39	0.02	0.00	-0.80	-5.17
Telephone Hardship			Not Funded		
Treasury Telecommunications	0.14	0.37	0.00	-0.26	0.25
FFB Telecommunications	-0.10	0.24	0.00	-2.63	-2.49
Intermediary Relending Program	23.03	1.53	0.00	-1.47	23.09
Rural Economic Development	13.09	0.02	0.00	-0.19	12.92
Rural Microenterprise	7.28	2.70	0.00	0.00	9.98
Electric Underwriting	0.00	1.39	-5.25	0.00	-3.86
Rural Energy Savings Program	12.48	1.29	0.00	-0.44	13.33

NOTE 6: Continued

Analysis of Direct Loans

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

RURAL HOUSING PROGRAMS

Direct 502 Single Family Housing

The Direct Single-Family Housing Section 502 Program had an overall upward reestimate of $69 million which is a portion of the total Direct Housing Program upward reestimate of $46 million. The Direct Single Family Housing Section 502 Program represents less than one percent of the outstanding principal balance, is consistent with the reestimates over the last several years, and reflects the stable and consistent performance of the program. Older cohorts (2000 through 2010) had an upward reestimate of $115 million, while certain newer cohorts experienced a downward reestimate of ($58) million. The upward reestimates reflect the impact of continuing elevated residual defaults of loans for properties acquired prior to the 2008 recession.

Direct Community Facility

The Direct Community Facility Program had a net upward reestimate of $134 million. Cohorts 2015 through 2017 had an upward reestimate of $161 million due primarily to projected borrowing rates from Treasury rising higher than initially budgeted. Treasury rates on older cohorts do not change as Treasury sets fixed borrowing rates on each cohort after 90% of the loans have been disbursed.

RURAL UTILITIES PROGRAMS

Direct Electric Programs

The Electric Program had an overall upward reestimate of $49 million. This reestimate was comprised primarily of a $300 million upward reestimate in the FFB program and a ($291 million) downward reestimate in the FFB Underwriter program. The FFB electric upward reestimate of $300 million represents less than one percent of the outstanding principal balance. Just over half of the reestimate is due to projected borrowing rates from Treasury rising higher than initially budgeted for the 2015 through 2017 cohorts. The remaining portion of the reestimate is due to a model adjustment to reflect a reduction in the expected prepayments, which will result in higher net borrowing costs in future years. The FFB Underwriter program received a significant unexpected prepayment of principal in 2018, which will be used to reduce Treasury borrowings and reduce future net interest expense for the program.

NOTE 6: Continued

Direct Water and Environmental Programs

The Direct Water and Environmental Program had an upward reestimate of $72 million, representing less than one percent of the outstanding principal. The majority of the reestimate was caused by projected borrowing rates from Treasury rising higher than initially budgeted for the 2015 through 2017 cohorts.

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 2018 increased compared to the FY 2017 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2018 and FY 2017, there were $131,840 million and $128,364 million in outstanding principal (face value) and $117,373 million and $114,435 million in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2018		
Housing	$ 122,966	$ 110,632
Community Facility	1,141	1,017
Electric	161	161
Water and Environmental	91	80
Business and Industry	7,481	5,483
Total Guarantees Outstanding	**$ 131,840**	**$ 117,373**
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**

NOTE 6: Continued

Liability for Loan Guarantees

Liability for loan guarantees consists of net cash flows (outflows less inflows) paid or to be paid by the entity as a result of the loan guarantees. **Table 6a** shows the loan guarantee liability. **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2018, the total liabilities decreased by $292 million compared to FY 2017.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

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

NOTE 6: Continued

The Agency continued to process claim payments to lenders in FY 2018 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 2018**	**FY 2017**
Beginning Balance of the Loan Guarantee Liability	$ 574	$ 1,326
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	0	0
Default costs (net of recoveries)	819	821
Fees and other collections	(820)	(893)
Other subsidy costs	1	0
Total of the above subsidy expense components	0	(72)
Adjustments:		
Loan guarantee modifications	0	0
Fees received	603	597
Interest supplements paid	(8)	(9)
Claim payments to lenders	(633)	(739)
Interest accumulation on the liability balance	6	26
Loans acquired	63	49
Other	(147)	(116)
Ending balance of the loan guarantee before reestimates	458	1,062
Add or subtract reestimates by component:		
Interest rate reestimates	(82)	24
Technical/default reestimates	(94)	(512)
Total of the above reestimate components	(176)	(488)
Ending Balance of the Loan Guarantee Liability (Post-1991)	**$ 282**	**$ 574**

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 2018 and FY 2017 by loan program. Total guaranteed loan subsidy expense in FY 2018 was ($176) million compared to ($560) million in FY 2017, an increase of $384 million.

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				
	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modification	Interest Rate	Technical	Total	GRAND TOTAL
FY 2018										
Housing	$ 0	$ 622	$ (753)	$ 0	$ (131)	$ 0	$ (88)	$ (24)	$ (112)	$ **(243)**
Community Facility	0	5	(1)	0	4	0	0	5	5	**9**
Electric	0	0	0	0	0	0	0	0	0	**0**
Water and Environmental	0	0	0	0	0	0	0	0	0	**0**
Business and Industry	0	192	(66)	1	127	0	6	(75)	(69)	**58**
Total Subsidy Expense, Guaranteed	**$ 0**	**$ 819**	**$ (820)**	**$ 1**	**$ 0**	**$ 0**	**$ (82)**	**$ (94)**	**$ (176)**	**$ (176)**
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)**

NOTE 6: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value decreased to $19,647 million in FY 2018 from $20,512 million in FY 2017. The housing loan program experienced the largest decrease.

TABLE 8: GUARANTEED LOANS DISBURSED (POST-1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2018		
Housing	$ 17,527	$ 15,774
Community Facility	105	93
Water and Environmental	2	1
Business and Industry	2,013	1,553
Total Guaranteed Loans Disbursed	**$ 19,647**	**$ 17,421**
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**

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 2018 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 2018	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	3.54	-4.25	0.00	-0.71
Section 538 Multi-Family Housing	4.05	-7.67	0.00	-3.62
Community Facilities	4.16	-0.89	0.00	3.27
Business and Industry	8.02	-3.96	0.00	4.06
Water and Environmental	1.33	-0.87	0.00	0.46
Renewable Energy	5.27	-1.40	0.00	3.87
Biorefinery (Section 9003 Loan Guarantees)	25.88	-4.72	0.08	21.24

NOTE 6: Continued

Analysis of Guaranteed Loans

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

Rural Housing Program

The Guaranteed Single Family Housing Section 502 program is the largest of RD's guaranteed housing program and is a portion of the ($112 million) downward reestimate for the overall Housing Guaranteed Loan Programs. The Guaranteed Single Family Housing Section 502 Program had an overall downward reestimate of ($100 million). The downward reestimate of ($100 million) is the result of a downward reestimate of ($93 million) in the Blended component of the program and a downward reestimate of ($7 million) in the Purchase component of the program. The Blended component's change is attributed to the upward reestimates for cohorts 2011 through 2017, along with a larger offsetting downward reestimate for cohort 2018 of $111 million, or less than one percent of the outstanding principal, due to projected losses lower than originally budgeted. In the Blended component of the program, the upward reestimate for cohorts 2011 through 2017 is due to the increase in projected loss claims and a decrease in projected annual fees, reducing the future cash flows and increasing the subsidy cost. The Purchase component's change is mainly attributed to cohorts 2008 through 2010.

Business and Industry Program

The downward reestimate change in the Guaranteed Business and Industry Program is a portion of the overall downward reestimate in the Business and Industry Loans of ($69 million). The Guaranteed Business and Industry Program had an overall downward reestimate of ($90 million), which was the result of higher projected recoveries and lower than foreclosed claims paid through FY 2018.

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 2018						
Personal Property						
Equipment	$ 3	$ 2	$ 1	5-20	SL	$ 25,000
Internal Use Software	203	167	36	5-8	SL	$ 100,000
Internal Use Software in Development	3	0	3		SL	$ 100,000
Total	**$ 209**	**$ 169**	**$ 40**			
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**			

NOTE 8: OTHER ASSETS

	FY 2018	FY 2017
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 2018	FY 2017
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	32	34
Contingent Liability	469	65
Other Liability	70	65
Total With the Public	**607**	**200**
Total Liabilities Not Covered by Budgetary Resources[6]	**613**	**206**
Total Liabilities Covered by Budgetary Resources	102,112	104,593
Total Liabilities Not Requiring Budgetary Resources[7]	(12)	(10)
Total Liabilities	**$ 102,713**	**$ 104,789**

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

NOTE 10: DEBT

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

NOTE 10: Continued

	FY 2018	FY 2017
Classification of Debt		
Intragovernmental Debt	$ 93,353	$ 95,010
Debt Held by the Public	0	0
Total Debt	**$ 93,353**	**$ 95,010**

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 2018	FY 2017
Interest Payable, Federal		
Federal Financing Bank	$ 360	$ 353
Total	**$ 360**	**$ 353**

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 2018	FY 2017
Interest Expense, Federal		
Federal Financing Bank	$ 1,565	$ 1,618
Treasury	1,894	2,039
Total	**$ 3,459**	**$ 3,657**

NOTE 11: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2018			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 8	$ 8
Employer Contributions & Payroll Taxes Payable	0	4	4
Unfunded FECA Liability	3	3	6
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**$ 3**	**$ 14**	**$ 17**
Other Accrued Liabilities	0	70	70
Accrued Funded Payroll & Leave	0	15	15
Unfunded Annual Leave	0	32	32
Liability for Advances & Prepayments	0	(11)	(11)
Liability for Deposit Fund & Suspense Accounts	0	0	0
Contingent Liabilities	0	469	469
Other Liabilities	24	46	70
Total Other Liabilities	**$ 27**	**$ 635**	**$ 662**
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**

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, 2018 and 2017, there were approximately $3,236 million and $4,986 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, 2018:

In FY 2018, a Rural Utilities Service borrower asserted the intent to file bankruptcy. The Office of General Counsel has made the determination that a $400 million unfavorable outcome is probable. This amount has been accrued on the financial statements.

Rural Development is actively involved in restructuring negotiations.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments were deemed probable in FY 2014. As of September 2018, the Office of the General Counsel has made the determination that a $65 million unfavorable outcome is probable. This amount has been accrued to the financial statements.

In FY 2018, in addition to the breach of contract cases a Housing Section 515 borrower brought suit for expectancy damages. The Office of the General Counsel has made the determination that a $4.2 to $7.4 million unfavorable outcome is probable. This amount has been accrued in the financial statements.

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

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

NOTE 12: Continued

A reasonably possible loss of $5 million was reported in the Community Facility Loan Program. Rural Development will continue to work with the borrower to allow the facility to continue operating. Since this potential loss is reasonably possible no dollar value has been accrued to the financial statements.

NOTE 13: Supporting Schedule for Statement of Net Cost

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2018					
Gross Costs:					
Borrowing Interest Expense	$ 732	$ 16	$ 848	$ 1,863	$ 3,459
Grants	10	1,275	670	0	1,955
Loan Cost Subsidies	(114)	(1)	153	(132)	(94)
Other	755	49	212	770	1,786
Total Gross Costs	**1,383**	**1,339**	**1,883**	**2,501**	**7,106**
Less:					
Earned Revenues	739	17	874	2,213	3,843
Net Cost of Operations	**$ 644**	**$ 1,322**	**$ 1,009**	**$ 288**	**$ 3,263**
FY 2017					
Gross Costs:					
Borrowing Interest Expense	$ 755	$ 14	$ 889	$ 1,999	$ 3,657
Grants	14	1,256	729	0	1,999
Loan Cost Subsidies	(377)	23	(22)	30	(346)
Other	581	19	122	599	1,321
Total Gross Cost	**973**	**1,312**	**1,718**	**2,628**	**6,631**
Less:					
Earned Revenue	781	15	915	2,346	4,057
Net Cost of Operations	**$ 192**	**$ 1,297**	**$ 803**	**$ 282**	**$ 2,574**

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

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

NOTE 13: Continued

Credit Reform

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

Exchange Transactions with Non-Federal Sources

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

Rural Housing Programs

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

Rural Business-Cooperative Program

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

Rural Utilities Program

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

NOTE 13: Continued

Exchange Transactions with Federal Sources

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

NOTE 14: APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VS. REIMBURSABLE OBLIGATIONS

	Direct	Reimbursable	Total
FY 2018			
Category A-Apportionment by Fiscal Quarter	$ 677	$ 11	$ 688
Category B-Apportionment by Special Activities	21,288	670	21,958
Total Obligations Incurred	**$ 21,965**	**$ 681**	**$ 22,646**
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**

NOTE 15: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2018, and 2017, the amount of available borrowing authority was $25,304 million and $20,926 million, respectively.

NOTE 16: TERMS OF BORROWING AUTHORITY USED

Requirements for Repayments of Borrowings

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

Financing Sources for Repayments of Borrowings

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

Other Terms of Borrowing Authority Used

In general, borrowings are for periods between one year and approximately fifty years depending upon the loan program/cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect during the period of loan disbursements. Rural Development disburses some individual loans over several quarters or years.

Consequently, several interest rates can be applicable to an individual loan. Thus, a single weighted average interest rate is maintained for each cohort and is adjusted each year until the disbursements for the cohort have been made. Each year, the current average annual interest rate is weighted by current year disbursements and merged with prior year weighted averages to calculate a new weighted average.

Prepayments can be made on Treasury borrowings in the liquidating and financing accounts without penalty; however, they cannot be made on Federal Financing Bank Certificates of Beneficial Ownership in the liquidating accounts without penalty.

NOTE 17: PERMANENT INDEFINITE APPROPRIATIONS

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

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

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

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

NOTE 18: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Purpose

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

Amount

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

Time

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

NOTE 18: Continued

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

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

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

The 2020 Budget of the United States Government, with the "Actual" columns completed for FY 2018, 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 2019. The Budget will be available from https://www.whitehouse.gov/omb/budget.

The 2019 Budget of the United States Government, with the "Actual" columns completed for FY 2017, was published in February of 2018 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 2017, 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 2017, adjustments were made in GTAS to record prior year obligation activity to correctly reflect Rural Development's activity in the Budget.
- In FY 2017, Alternative Agricultural Research and Commercialization Corporation Revolving Fund (12X4144) was not included in the SBR, but was included in the Budget.
- Amounts due to rounding.

NOTE 19: Continued

Reconciliation Between FY 2017 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)	45,451	Total Budgetary Resources Available for Obligation	45,329	$ 122 E 122 R 1 A (1)	None
New Obligations and Upward Adjustments (Line 2190)	30,026	Total New Obligations	30,025	$ 1 E 4 R 1 A (4)	None
Distributed Offsetting Receipts (Line 4200)	(8,512)	Treasury Combined Statement (Receipts by Department)	(8,511)	$ (1) R (1)	None
Net Outlays (Line 4190)	12,022	Outlays	12,020	$ 2 R 2	None

<u>Legend</u>

E = Expired Budgetary Authority
R = Rounding
A = Adjustment

NOTE 20: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning in FY 2018, the reporting requirement for undelivered orders was changed to include Federal and Non-Federal, Paid and Unpaid categories.

	Undelivered Orders		
	Federal	Non Federal	Total
FY 2018			
Paid	$ 0	$ 0	$ 0
Unpaid	1,526	28,235	29,761
Total Undelivered Orders	**$ 1,526**	**$ 28,235**	**$ 29,761**
FY 2017			
Paid	$ 0	$ 0	$ 0
Unpaid	1,477	25,627	27,104
Total Undelivered Orders	**$ 1,477**	**$ 25,627**	**$ 27,104**

NOTE 21: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2018	FY 2017
Sources of Collections		
Recoveries and Refunds	$ 5	$ 10
Total Revenue Collected	**5**	**10**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	5	10
Total Disposition of Revenue	**5**	**10**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 22: BUDGET AND ACCRUAL RECONCILIATION

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

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

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

During FY 2018 the agency reported significant components of net operating cost not part of budgetary outlays. Intergovernmental activity for Year End Credit Reform Subsidy reestimates of ($1,301) million represents the FY 2018 upward reestimate accruals not resulting in an outlay until FY 2019. The $1,663 million in Debt is a result of a decrease in the total liability for the outstanding debt not attributed to a reduction to a budgetary outlay. A large increase in repayments of Federal Financing Bank outstanding debt was the most significant factor for the decrease in total debt. The $973 million for Credit Reform Subsidy reestimates represents the liability accrued for upward reestimates in FY 2017 and outlayed in FY 2018. Activity with the public of $1,563 million represents an increase in the assets value of the total loans receivable, and the ($390) represents an increase in the contingent liability related to probable future losses. Such losses do not utilize a budgetary outlay in the current period.

During FY 2018 the agency reported significant components of net outlays that are not part of net cost. All activity was related to the budgetary change in the amount of debt owed to Treasury. More specifically, the agency satisfied debt with actual repayment of debt through non-expenditure transfers, prior year funds converted to cash, and offsets by the realized borrowing authority necessary to fund activity throughout FY 2018.

NOTE 22: Continued

Rural Development is not required to disclose amounts from prior reporting periods for comparative purposes in the initial year of implementation. Therefore, FY 2017 amounts have not been disclosed.

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

NOTE 23: FIDUCIARY ACTIVITY

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

Rural Housing Insurance Fund (RHIF) was established by Public Law 89-117 pursuant to section 517 of Title V of the Housing Act of 1949, which authorized Rural Development to collect escrow payments on behalf of new and existing Single Family Housing borrowers. Other fiduciary activities by Rural Development include but are not limited to collections from borrowers, interest paid on escrow accounts, and payments to insurance agencies and taxing authorities.

Schedule of Fiduciary Activity for the Years Ended September 30, 2018 and 2017

	FY 2018	FY 2017
Fiduciary Net Assets, beginning of year	**$ 116**	**$ 113**
Contributions	445	432
Disbursements	437	429
Increase/Decrease in Fiduciary Fund Balances	**8**	**3**
Fiduciary Net Assets, end of year	**$ 124**	**$ 116**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2018 and 2017

	FY 2018	FY 2017
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 10	$ 10
Investments – Short Term	74	16
Investments – Long Term	40	90
Total Fiduciary Net Assets	**$ 124**	**$ 116**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 114	$ 1,005	$ 145	$ 1,084
Recoveries of Prior Year Unpaid Obligations	87	234	91	340
Other Changes in Unobligated Balance	(23)	(734)	(14)	(972)
Unobligated Balance from Prior Year Budget Authority, Net	178	505	222	452
Appropriations	1,771	0	1,052	0
Borrowing Authority (Notes 15 and 16)	0	5,374	0	4,679
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	49	165	13	989
Total Budgetary Resources	**1,998**	**6,044**	**1,287**	**6,120**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	1,599	5,393	1,173	5,115
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	376	310	83	845
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	23	341	31	160
Unexpired Unobligated Balance, End of Year	399	651	114	1,005
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	399	651	114	1,005
Total Budgetary Resources	**1,998**	**6,044**	**1,287**	**6,120**
Outlays, Net:				
Outlays, Net	991	1,474	941	1,298
Distributed Offsetting Receipts	0	(534)	0	(364)
Agency Outlays, Net	**$ 991**	**$ 940**	**$ 941**	**$ 934**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 6,985	$ 3,788	$ 6,090	$ 5,208
Recoveries of Prior Year Unpaid Obligations	1	253	1	488
Other Changes in Unobligated Balance	(141)	(3,177)	(165)	(3,287)
Unobligated Balance from Prior Year Budget Authority, Net	6,845	864	5,926	2,409
Appropriations	990	0	1,446	0
Borrowing Authority (Notes 15 and 16)	0	5,882	0	5,175
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1,783	2,263	2,076	3,765
Total Budgetary Resources	**9,618**	**9,009**	**9,448**	**11,349**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	2,349	6,422	2,463	7,561
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	1,563	2,587	6,401	3,666
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	5,702	0	581	122
Unexpired Unobligated Balance, End of Year	7,265	2,587	6,982	3,788
Expired Unobligated Balance, End of Year	4	0	3	0
Total Unobligated Balance, End of Year	7,269	2,587	6,985	3,788
Total Budgetary Resources	**9,618**	**9,009**	**9,448**	**11,349**
Outlays, Net:				
Outlays, Net	450	1,139	251	675
Distributed Offsetting Receipts	0	(447)	0	(873)
Agency Outlays, Net	**$ 450**	**$ 692**	**$ 251**	**$ (198)**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 3	$ 17	$ 3	$ 20
Recoveries of Prior Year Unpaid Obligations	1	38	0	8
Other Changes in Unobligated Balance	(4)	(55)	0	(28)
Unobligated Balance from Prior Year Budget Authority, Net	0	0	3	0
Appropriations	7	0	1	0
Borrowing Authority (Notes 15 and 16)	0	7	0	2
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	26
Total Budgetary Resources	**7**	**7**	**4**	**28**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	7	7	1	11
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	0	0	0	17
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	0	0	0	17
Expired Unobligated Balance, End of Year	0	0	3	0
Total Unobligated Balance, End of Year	0	0	3	17
Total Budgetary Resources	**7**	**7**	**4**	**28**
Outlays, Net:				
Outlays, Net	7	(26)	1	(33)
Distributed Offsetting Receipts	0	0	0	(2)
Agency Outlays, Net	**$ 7**	**$ (26)**	**$ 1**	**$ (35)**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 174	$ 2,337	$ 179	$ 7,683
Recoveries of Prior Year Unpaid Obligations	18	101	35	94
Other Changes in Unobligated Balance	(95)	(865)	(115)	(848)
Unobligated Balance from Prior Year Budget Authority, Net	97	1,573	99	6,929
Appropriations	662	0	993	0
Borrowing Authority (Notes 15 and 16)	0	2,003	0	2,635
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	63	1,283	106	2,687
Total Budgetary Resources	**822**	**4,859**	**1,198**	**12,251**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	685	3,349	1,024	9,914
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	36	1,465	96	2,337
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	35	45	0	0
Unexpired Unobligated Balance, End of Year	71	1,510	96	2,337
Expired Unobligated Balance, End of Year	66	0	78	0
Total Unobligated Balance, End of Year	137	1,510	174	2,337
Total Budgetary Resources	**822**	**4,859**	**1,198**	**12,251**
Outlays, Net:				
Outlays, Net	202	664	523	6,868
Distributed Offsetting Receipts	0	(622)	0	(7,202)
Agency Outlays, Net	**$ 202**	**$ 42**	**$ 523**	**$ (334)**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 62	$ 0	$ 11	$ 0
Recoveries of Prior Year Unpaid Obligations	3	0	6	0
Other Changes in Unobligated Balance	1	0	1	0
Unobligated Balance from Prior Year Budget Authority, Net	66	0	18	0
Appropriations	1,398	0	1,448	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	0
Total Budgetary Resources	**1,464**	**0**	**1,466**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	1,399	0	1,404	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	53	0	53	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	2	0	0	0
Unexpired Unobligated Balance, End of Year	55	0	53	0
Expired Unobligated Balance, End of Year	10	0	9	0
Total Unobligated Balance, End of Year	65	0	62	0
Total Budgetary Resources	**1,464**	**0**	**1,466**	**0**
Outlays, Net:				
Outlays, Net	1,224	0	1,221	0
Distributed Offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,224**	**$ 0**	**$ 1,221**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 10	$ 4	$ 14	$ 11
Recoveries of Prior Year Unpaid Obligations	2	1	5	14
Other Changes in Unobligated Balance	0	(5)	0	(25)
Unobligated Balance from Prior Year Budget Authority, Net	12	0	19	0
Appropriations	70	0	62	0
Borrowing Authority (Notes 15 and 16)	0	188	0	30
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	0	0	23
Total Budgetary Resources	**82**	**188**	**81**	**53**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	74	154	71	49
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	7	34	7	4
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	1	0	3	0
Unexpired Unobligated Balance, End of Year	8	34	10	4
Expired Unobligated Balance, End of Year	0	0	0	0
Total Unobligated Balance, End of Year	8	34	10	4
Total Budgetary Resources	**82**	**188**	**81**	**53**
Outlays, Net:				
Outlays, Net	60	47	62	44
Distributed Offsetting Receipts	0	(21)	0	(6)
Agency Outlays, Net	**$ 60**	**$ 26**	**$ 62**	**$ 38**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	Salaries & Expense	Salaries & Expense	Salaries & Expense
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 31	$ 0	$ 41	$ 0
Recoveries of Prior Year Unpaid Obligations	7	0	7	0
Other Changes in Unobligated Balance	(4)	0	(8)	0
Unobligated Balance from Prior Year Budget Authority, Net	34	0	40	0
Appropriations	231	0	226	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	472	0	462	0
Total Budgetary Resources	**737**	**0**	**728**	**0**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	704	0	697	0
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	21	0	19	0
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	0	0	0	0
Unexpired Unobligated Balance, End of Year	21	0	19	0
Expired Unobligated Balance, End of Year	12	0	12	0
Total Unobligated Balance, End of Year	33	0	31	0
Total Budgetary Resources	**737**	**0**	**728**	**0**
Outlays, Net:				
Outlays, Net	220	0	222	0
Distributed Offsetting Receipts	(4)	0	0	0
Agency Outlays, Net	**$ 216**	**$ 0**	**$ 222**	**$ 0**

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 429	$ 466	$ 424	$ 409
Recoveries of Prior Year Unpaid Obligations	188	40	20	15
Other Changes in Unobligated Balance	5	(271)	(26)	(207)
Unobligated Balance from Prior Year Budget Authority, Net	622	235	418	217
Appropriations	828	0	84	0
Borrowing Authority (Notes 15 and 16)	0	216	0	196
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	228	(44)	208	315
Total Budgetary Resources	**1,678**	**407**	**710**	**728**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 14)	294	210	281	262
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	1,154	101	286	305
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	222	96	130	161
Unexpired Unobligated Balance, End of Year	1,376	197	416	466
Expired Unobligated Balance, End of Year	8	0	13	0
Total Unobligated Balance, End of Year	1,384	197	429	466
Total Budgetary Resources	**1,678**	**407**	**710**	**728**
Outlays, Net:				
Outlays, Net	(14)	(182)	20	(71)
Distributed Offsetting Receipts	0	(60)	0	(65)
Agency Outlays, Net	**$ (14)**	**$ (242)**	**$ 20**	**$ (136)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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

	2018 Budgetary	2018 Non-Budgetary Credit Program Financing Accounts	2017 Budgetary	2017 Non-Budgetary Credit Program Financing Accounts
	Total	Total	Total	Total
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 7,808	$ 7,617	$ 6,907	$ 14,415
Recoveries of Prior Year Unpaid Obligations	307	667	165	959
Other Changes in Unobligated Balance	(261)	(5,107)	(327)	(5,367)
Unobligated Balance from Prior Year Budget Authority, Net	7,854	3,177	6,745	10,007
Appropriations	5,957	0	5,312	0
Borrowing Authority (Notes 16 and 17)	0	13,670	0	12,717
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,595	3,667	2,865	7,805
Total Budgetary Resources	**16,406**	**20,514**	**14,922**	**30,529**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Note 15)	7,111	15,535	7,114	22,912
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	3,210	4,497	6,945	7,174
Exempt From Apportionment, Unexpired Accounts	0	0	0	0
Unapportioned, Unexpired Accounts	5,985	482	745	443
Unexpired Unobligated Balance, End of Year	9,195	4,979	7,690	7,617
Expired Unobligated Balance, End of Year	100	0	118	0
Total Unobligated Balance, End of Year	9,295	4,979	7,808	7,617
Total Budgetary Resources	**16,406**	**20,514**	**14,922**	**30,529**
Outlays, Net				
Outlays, Net	3,140	3,116	3,241	8,781
Distributed Offsetting Receipts	(4)	(1,684)	0	(8,512)
Agency Outlays, Net	**$ 3,136**	**$ 1,432**	**$ 3,241**	**$ 269**

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