United States Department of Agriculture

Office of Inspector General

Rural Development's Financial Statements for Fiscal Years 2014 and 2013

85401-0004-11

November 2014

Rural Development's Financial Statements for Fiscal Years 2014 and 2013

Audit Report 85401-0004-11

What Were OIG's Objectives

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.

What OIG Reviewed

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

What OIG Recommends

This report does not provide recommendations.

OIG performed the annual audits of Rural Development's consolidated financial statements for fiscal years 2014 and 2013.

What OIG Found

Rural Development received an unmodified opinion from the Office of Inspector General's audit of Rural Development's consolidated financial statements. We determined that the agency's financial statements for the 2014 and 2013 fiscal years present Rural Development's financial position as of September 30, 2014 and 2013 fairly, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

Our consideration of Rural Development's internal control over financial reporting identified no material weaknesses. However, our consideration of compliance with laws and regulations noted an instance of noncompliance with the Government Performance and Results Modernization Act of 2010.

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

DATE: November 7, 2014

AUDIT NUMBER: 85401-0004-11

TO: Doug O'Brien
Acting Under Secretary
Rural Development

ATTN: John L. Dunsmuir
Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development's Financial Statements for Fiscal Years 2014 and 2013

This report presents the results of our audits of Rural Development's financial statements for the fiscal years ending September 30, 2014 and 2013. 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.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Independent Auditor's Report

Doug O'Brien
Acting Under Secretary
for Rural Development

We have audited the consolidated financial statements of Rural Development for fiscal years 2014 and 2013. In connection with our fiscal year 2014 audit, we also considered Rural Development's internal control over financial reporting and tested Rural Development's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

Exhibit A of this report provides an update to previously reported instances of noncompliance with laws and regulations, and 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, 2014 and 2013, and the related consolidated statements of net cost; 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 (herein referred to as "financial statements"). The objective of our audit was to express an opinion on the fair presentation of these financial statements.

Management's Responsibility for the Financial Statements

Rural Development's 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.); this includes 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 Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 14-02 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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.

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, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. The other information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Rural Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Development's internal control or on management's assertion on the internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of Rural Development's internal control or on management's assertion on internal control included in the MD&A.

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

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

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

OMB Bulletin 14-02 requires us to describe significant deficiencies and material weaknesses identified during our audit; and in the event that no material weaknesses were identified, to so report. For both our fiscal years 2014 and 2013 financial statement audits, our work disclosed no material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin 14-02. 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 its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which Rural Development's financial management systems did not substantially comply with FFMIA.

In the June 2014 Government Accountability Office (GAO) report GAO-14-511, *USDA Should Include Broadband Program's Impact in Annual Performance Reports*, GAO found that the Department of Agriculture (USDA) was noncompliant with the Government Performance and Results Modernization Act of 2010 with respect to a Rural Development program. Specifically, Rural Utilities Service has reported limited information on Broadband Initiatives Program's (BIP) impact since awarding funds to projects, and BIP results are not tracked in USDA's annual performance reporting.

Management's Responsibility for Internal Control and Compliance

Rural Development management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (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 to plan the audit, (2) testing whether Rural Development's financial management systems substantially comply with the FFMIA requirements referred to above, (3) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (4) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

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

We did not test compliance with all laws and regulations applicable to Rural Development. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to Rural Development's financial statements for the fiscal year ended September 30, 2014. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response

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

Status of Prior Years' Noncompliance Issues

We have reviewed the status of Rural Development's corrective actions with respect to the prior year's Independent Auditor's Report, dated December 10, 2013. The status is presented in Exhibit A.

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

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

Gil H. Harden

Gil H. Harden
Assistant Inspector General for Audit
November 6, 2014

Abbreviations

FFMIA .... Federal Financial Management Improvement Act of 1996
FMFIA .... Federal Managers' Financial Integrity Act of 1982
GAO .... Government Accountability Office
IPERA .... Improper Payments Elimination and Recovery Act of 2010
MD&A .... Management's Discussion and Analysis
OIG .... Office of Inspector General
OMB .... Office of Management and Budget
USDA.......................... Department of Agriculture
U.S. .... United States of America

Exhibit A: Status of Prior Years' Noncompliance Findings

Report 85401-0003-11, *Rural Development's Financial Statements for Fiscal Years 2013 and 2012,* dated December 10, 2013.

Report **85401-0002-11,** *Rural Development's Financial Statements for Fiscal Years 2012 and 2011,* dated November 13, 2012.

Reported Noncompliance

In Report 50024-0001-11, *U.S. Department of Agriculture, Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review*, issued March 14, 2012, the Office of Inspector General (OIG) identified two instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, evaluators of Rural Development's Rental Assistance Program and Single Family Housing Guaranteed Loan Program (1) did not validate the payment amount for the Rental Assistance Program, and (2) did not adequately validate eligibility when they assessed whether the Single Family Housing Guaranteed Loan Program was a high risk program. This information was carried forward as a noncompliance in the Compliance and Other Matters portion of Report 85401-0002-11.

Status

In Report 50024-0004-11, *U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012*, issued March 14, 2013, OIG identified Rural Development's Rental Assistance Program was noncompliant for a second consecutive year. Specifically, the Rental Assistance Program did not meet its reduction target for fiscal year 2012. This information was carried forward as a noncompliance in the Compliance and Other Matters portion of Report 85401-0003-11.

For fiscal year 2013, the Department indicated that Rural Development's Rental Assistance Program is now compliant with IPERA and met its reduction target. In Report 50024-0005-11, *U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Review for Fiscal Year 2013,* issued April 15, 2014, OIG verified the Rental Assistance Program was not included as one of the agencies that did not meet its reduction target.

OIG Results

Closed. As noted above and verified by OIG, Rural Development's Rental Assistance Program is now compliant with IPERA.

Exhibit B: Agency Response

USDA

United States Department of Agriculture

Rural Development

Office of the
Under Secretary

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NOV 6 2014

TO: Lynette Cockrell
Director of Financial Audit Operations
Office of Inspector General
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114

FROM: Douglas J. O'Brien
Acting Under Secretary

SUBJECT: Response to Draft Audit Report on Rural Development's Fiscal Year 2014 General-Purpose Financial Statements

We have reviewed the Office of Inspector General Draft Report on the Rural Development Fiscal Year 2014 General-Purpose Financial Statements, Report on Internal Control Structure Over Financial Reporting, and the Report on Compliance with Laws and Regulations and agree on their contents.

Although, the audit report did not identify findings or recommendations, Rural Development will continue to monitor and enhance internal controls and financial statements' reporting processes to address improvements noted by the Office of Inspector General.

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

RURAL DEVELOPMENT
FISCAL YEARS 2014 and 2013
FINANCIAL STATEMENTS
PREPARED BY RURAL DEVELOPMENT

U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT

"Committed to the future of rural communities"

Fiscal Year
2014 and 2013

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, 2014 AND 2013

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Rural Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

Mission Statement

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

Rural Development promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

Key Goal

Rural Development supports the USDA strategic goal to assist rural communities to create prosperity so they are self-sustaining, re-populating, and economically thriving. Two key objectives Rural Development supports are (1) to enhance rural prosperity; and (2) to create thriving communities.

Organizational Structure

Rural Development's mission area is comprised of Housing and Community Facilities, Utilities, and Business and Cooperative programs.

Loan Programs

Rural Development loan programs are delivered through the National Office, state offices, and a network of field offices. The mission area is supported by various organizations that provide accounting, budget, and loan servicing support for all mission area programs.

Rural Development programs generally provide loans to individuals and enterprises that are at a greater risk of default since they lack the financial resources to obtain credit in the private sector.

The type of assistance offered includes direct loans, loan guarantees, and grants. Some programs provide assistance to intermediaries that make loans or provide technical assistance to the ultimate beneficiaries. Several programs leverage government support with private sector financing to cover the total cost of a project. Loan programs serve 312,263 borrowers through direct programs and 873,276 borrowers through guaranteed programs.

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

The table below reflects a total loan portfolio balance higher in fiscal year (FY) 2014 than in FY 2013. There was an increase in the direct portfolio from $95.3 billion to $96.0 billion and a slight decrease in the guaranteed portfolio from $98.8 billion to $98.5 billion.

Total Loan Portfolio as of September 30, 2014
FY's 2012 Through 2014
(Dollars in Billions)

	FY 2012	FY 2013	FY 2014
Direct Loans			
Single Family Housing	$15.5	$15.2	$15.0
Multi-Family Housing	11.6	11.9	11.9
Community Facilities	4.4	4.8	5.1
Water & Environmental	12.1	12.2	12.5
Electric	43.3	45.8	46.4
Telecommunications	4.6	4.5	4.2
Business Programs	0.9	0.9	0.9
Total Direct	92.4	95.3	96.0
Guaranteed Loans			
Single/Multi-Family Housing	$75.8	$90.5	$92.3
Community Facilities	1.2	1.2	1.1
Water & Environmental	0.1	0.1	0.1
Electric	0.3	0.3	0.3
Business Programs	7.1	6.7	4.7
Total Guaranteed	84.5	98.8	98.5
Total Loan Portfolio	**$176.9**	**$194.1**	**$194.5**

Rural Development Programs

RURAL HOUSING SERVICE (RHS)

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

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

Single Family Housing (SFH) programs provide home loans and grants to low and very low-income rural residents. To date, more than 3.8 million direct and guaranteed loans have been provided to low and moderate income families in rural areas. These loans are made to purchase, build, improve, repair, and rehabilitate homes. Home purchase loans are available to qualifying very-low, low- and moderate income home borrowers in rural America with no required down payments. Homeownership opportunities provided by the home purchase programs is a key performance measure.

Direct SFH programs provide loans to low and very low-income families to purchase, build, or rehabilitate modest homes in rural areas since 1950. Financing is 100 percent with payments subsidized to between 22 percent and 26 percent of the applicant's income. The subsidy, which is recaptured when the loan is paid off or refinanced, allows this program to reach a credit-worthy sector of the population whose income is too low to obtain credit elsewhere, even with a government guarantee. The families served through the direct program in FY 2014 had an average annual income of $29,500.

Guaranteed SFH programs offer loans for up to 100 percent of the appraised value or for the acquisition cost, and the guarantee fee may be added to increase the loan amount. Mortgages are 30-year fixed rate at market interest rates. Homebuyers apply and negotiate loan interest rates, not to exceed an approved Agency cap, with an approved private sector lender. Guaranteed loans may also be made to refinance either existing guaranteed housing loans or Section 502 direct housing loans. Families served through the guarantee program in FY 2014 had an average annual income of $56,400.

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

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

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

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

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

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

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

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

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

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

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

CF Direct and Guaranteed Loans and Grants provide financing to units of local government, nonprofit corporations, or Federally-recognized Indian tribes for the development of essential community facilities in rural areas. Eligible purposes include health care facilities; fire, rescue, and public safety buildings, vehicles, and equipment; educational and cultural facilities; town halls, community centers, and libraries; and adult and child day care facilities. There are no set minimum or maximum loan amounts with the community facilities direct and guaranteed loan programs; however, limits may exist depending on the availability of funds and/or the project's feasibility. The loan repayment term is limited to the useful life of the facility or State statute or 40 years.

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

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

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

The following chart shows key performance indicators, targets and results for Housing and Community Facilities for FY 2014.

HOUSING AND COMMUNITY FACILITIES PEFORMANCE SCORECARD FOR FY 2014			
Single Family Housing	FY 2014 Target	FY 2014 Actual	Results
Homeownership opportunities provided	176,539	146,388	Met*
Delinquency Rate (Direct Loans)	Within 200 basis Points of Federal Housing Administration (FHA) Rate	635 basis points above FHA	Unmet
Delinquency Rate (Guaranteed Loans)	Within 50 basis points of FHA Rate	45 basis points above FHA	Met
Multi-Family Housing			
Number of projects with accounts more than 180 days past due	Less than 220	199	Met
Total number of units selected for funding for Sec. 514/516 Farm Labor Housing new construction	560	616	Exceeded
Amount of leveraged funds in MFH for new construction and rehabilitation	$600,000,000	$918,198,168	Exceeded

Community Facilities			
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Health Facilities	5.5%	6.81%	Exceeded
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Safety Facilities	3.7%	3.65%	Met**
Percentage of rural residents who are provided access to new and/or improved essential community facilities-Educational Facilities	4.5%	6.21%	Exceeded

* The FY 2014 performance goal for Homeownership Opportunities was 176,539 with a +/- 20 percent met range (141,231 to 211,846)
**The FY 2014 performance goals for Residents Provided Access to Health, Safety and Educational Facilities are noted above with a +/- 0.2 points met range (Health: 5.3% to 5.7%, Safety: 3.5% to 3.9% and Educational: 4.3% to 4.7%)

Housing sales accelerated in the second half of FY 2014, helping the USDA SFH program to provide 146,388 homeownership opportunities allowing RHS to meet its goal. The 13.9% decline from 170,055 homeownership opportunities in FY 2013 to 146,388 in FY 2014 was most pronounced in the Guaranteed Loan Program, which reflected the general downtrend in the mortgage industry impacted by rising interest rates, reduced demand for mortgage refinancing, modest income growth, and a limited inventory of houses for sale.

The guaranteed program did meet its loan performance goals, with a delinquency rate net of foreclosures of 9.35 percent as of June 30, 2014, which is within 50 basis points of the Federal Housing Administration (FHA) Fixed Rate Mortgage delinquency rate of 8.90 percent. The Direct Program fell short with a delinquency rate of 15.25 percent, net of moratoriums and foreclosures, which exceeded the targeted 200 basis point variance from the same FHA standard. The margin by which the program did not meet its delinquency goals reflects the portfolio's lagging performance relative to FY 2013, as well as the significant improvement in the FHA delinquency rate, which decreased by approximately 128 basis points as compared to the same period last year.

MFH met or exceeded on all three of its FY 2014 performance goals. RD field staff's diligence enabled the timely servicing of delinquent rental properties by either correcting the delinquency or removing it from the portfolio. MFH also became more active in encouraging the use of leveraged funding to construct or rehabilitate RD rental housing. Steps taken included hiring additional staff to process complex transactions involving the transfer and rehabilitation of existing housing using RD and leveraged funding.

In FY 2014, CF continued its efforts to develop the capacity of national and field staff to effectively underwrite and service complex community/social infrastructure projects to protect the safety and soundness of our portfolio. CF obligated 1,347 loans and grants totaling $1.09 billion, exceeding expectations. As a result of the hard work and dedication of national and field office staff, CF exceeded on two out of three of its FY 2014 performance goals.

RURAL UTILITIES SERVICE (RUS)

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

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

Electric programs also administer the High Energy Cost Grant Program which supports energy facilities serving communities in which home energy costs exceed 275 percent of the national average.

Telecommunications programs annually finance new construction and upgrades to telecommunications infrastructure. Access to high-speed Internet services and other quality telecommunications services increases educational opportunities, improves availability of healthcare, job creation and retention, and enhances continued economic growth. Private capital for the deployment of broadband services in rural areas is limited, making incentives offered by Rural Development vitally important. Facilities financed must be capable of offering high-speed service to all subscribers. Telecommunications programs consist of three major components: (1) loans for infrastructure improvement and expansion (2) grants for distance learning and telemedicine initiatives, and (3) annual funding for loans and grants targeted for the deployment of broadband service in small towns and communities. These programs are a powerful tool for building strong rural economies.

Distance Learning and Telemedicine (DLT) programs have an impact in rural America by assisting rural schools and learning centers in gaining access to improved educational resources,

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

and by assisting rural hospitals and health care centers in gaining access to improved medical care. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically underserved areas, by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Distance Learning projects provide funding for computers and internet hookups in schools and libraries and promote understanding of the world-wide-web and its benefits to students and young entrepreneurs.

The Farm Bill Broadband Program was established with the Farm Security and Rural Investment Act of 2002 to provide access to Broadband Telecommunications services in rural areas. It was modified and reauthorized in the 2008 and 2014 Farm Bill. Designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less, these funds are provided through a variety of direct and guaranteed loans. Broadband networks in small rural towns facilitate economic growth and provide backbone for delivery of increased educational opportunities over state-of-the-art telecommunications networks. Access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources.

Water and Environmental (WEP) programs provide loans and grants to rural communities for the development, replacement, or upgrading of water and environmental facilities. Primary objectives of the WEP program are to provide rural residents with modern and affordable water and waste disposal services and to direct program resources to those rural communities with the greatest need.

The following chart shows key performance indicators, targets and results for Utilities for FY 2014.

UTILITIES PERFORMANCE SCORECARD FOR FY 2014			
Electric Loans – Direct and Guaranteed	FY 2014 Target	FY 2014 Actual	Results
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	4.625	4.407*	Met
Telecommunications Loans			
Number of borrowers/subscribers receiving new or improved telecommunication services	100,000	83,602	Unmet
Distance Learning and Telemedicine			
Number of rural counties receiving distance learning services and telemedicine facilities	380	1,202	Exceeded
Farm Bill Broadband			
Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	30,000	0	Unmet

Water and Environmental			
Population receiving new or improved services from agency-funded water and wastewater facilities or projects (millions)	2.3	2.2**	Met

*RUS met its target for Electric Loans – Direct and Guaranteed within an allowable data range of +/- 20 percent of its target.
**RUS met its target for Water and Environmental Programs within an allowable data range of +/- 5 percent of its target.

Although more total loans were approved and more obligations were processed in FY 2014 than in FY 2013, RUS did not meet its performance goals for Telecommunications Infrastructure Loans. The demographics of the entities applying for loans had a smaller subscriber base as a whole than in previous years. In addition, some loan applications were carried over to FY 2015 as a result of a delay in obtaining Environmental Report (ER) clearance, or the applications were received too late in the year for processing.

RUS exceeded its performance goals for the DLT Grant Program. This can be primarily attributed to the fact that the FY 2013 DLT Grants were actually obligated in FY 2014 which increased counties receiving facilities since they were included with the FY 2014 Grant Program awards. For this reason RUS reported 0 counties in both categories for FY 2013 performance measures. For the FY 2013 grants obligated in FY 2014, the number of counties receiving distance learning services was 318 and the number receiving telemedicine service was 273. For the FY2014 grants obligated in FY 2014, the number of counties receiving distance learning service was 256 and the number receiving telemedicine service was 355.

RUS did not meet its performance goals for Farm Bill Broadband Loans. This is due to the suspension of the Broadband Loan Program for the purpose of re-writing the regulations in order to implement new provisions of the Farm Bill. The regulations are expected to be completed in the second quarter of FY 2015.

The Government Accountability Office's (GAO) report, GAO-14-511, on the Recovery Act recommended that the Secretary of Agriculture include performance information on the Broadband Initiatives Program (BIP) in USDA's annual performance plan by comparing the actual results achieved against the current subscribership goal. RUS is aligning the reporting with the Annual Performance Report (APR) and the estimated implementation date is December 2014.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

RBS programs enhance the quality of life for all rural Americans by providing leadership in building energy efficient and competitive businesses and sustainable cooperatives that can prosper in the global marketplace. In partnership with the private sector and community-based organizations, these programs provide financial assistance and business planning services and help fund projects that create or preserve quality jobs and promote clean rural environments.

Business & Industry (B&I) Guaranteed Loan programs help create and maintain employment and improve the economic climate in rural communities. This is accomplished by providing loan guarantees to private lenders of up to 80 percent that can be used to fund business and industrial acquisition, construction, conversion, enlargement, repair or modernization. The number of jobs created or saved in rural communities is a key performance measure and a critical element in determining the viability of a project for funding.

The Intermediary Relending Program (IRP) helps to alleviate poverty, increase economic development and employment opportunities in rural communities. Under the IRP program, direct loan funds are used to capitalize rural revolving loan funds and are re-loaned to local small businesses that are not eligible for traditional bank loans, via an intermediary.

The Rural Business Enterprise Grant (RBEG) program provides grants to public bodies, private non-profit corporations, and Federally-recognized Indian tribes to finance and facilitate development of small and emerging business enterprises. Funds can be used to provide technical assistance such as marketing studies or training to small and emerging businesses, and to purchase machinery, establish initial capital for revolving funds, or construct facilities for business incubators.

Rural Economic Development Loans & Grants (REDLG) provide zero interest loans and grants to utility borrowers to promote sustainable rural economic development and job creation projects. Zero interest loans are used by electric or telephone utilities to relend to eligible recipients.

The Rural Micro Entrepreneur Assistance Program (RMAP) provides direct loans, technical assistance grants, and technical assistance-only grants to Microenterprise Development Organizations (MDOs) to support the development and ongoing success of rural micro entrepreneurs and Microenterprises in rural areas.

Section 9007 Rural Energy for America Program (REAP) provides loan guarantees and grants to agricultural producers and rural small businesses to purchase and install renewable energy systems and make energy-efficiency improvements. Benefits of the program include replacing energy generated from fossil fuels with renewable energy generation and reducing energy consumption and greenhouse gas emissions.

Section 9003 Bio-refinery, Renewable Chemical, and Bio-based Product Manufacturing Assistance programs provide loan guarantees to viable commercial-scale facilities to develop new and emerging technologies for advanced biofuels from renewable biomass other than corn kernel starch.

Section 9005 Advanced Biofuel Producer Payments are provided to eligible biofuel producers to support and expand production of advanced biofuels refined from sources other than corn kernel starch.

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

Rural Business Development Grant (RBDG) program is a new Farm Bill program. As required by the 2014 Farm Bill, the Rural Business Enterprise Grant (RBEG) and the Rural Business Opportunity Grant (RBOG) programs were consolidated under the new RBDG. This offers an opportunity for the Agency to consolidate its requirements and restructure its regulations in accordance with the law and the new 2 CFR for the Office of Management and Budget (OMB). It also streamlines the processes for both the applicants and the field staff.

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

The Value Added Producer Grant (VAPG) program provides rural producers an opportunity to increase their share of revenues received for their processed products. Grants can be used for working capital or feasibility studies. These grants for expansion, modernization or start-up, enhance the local job market mix and improve the local tax base. As a result, the overall local rural economy is stimulated, jobs are created, and quality of life improves.

Rural Cooperative Development Grant (RCDG) programs provide grants to nonprofit corporations and institutions of higher education to finance up to 75 percent of the cost of establishing and operating Centers for Cooperative Development. These funds help strengthen the rural economy and assist farmers, ranchers, and rural business owners across the nation in establishing and marketing cooperatives.

Delta Health Care Service (DHCS) programs provide financial assistance to address the continued unmet health needs in the Delta Region through cooperation among health care professionals, institutions of higher education, research institutions, and other individuals and entities in the Delta Region. Grants are made to consortiums, a combination or group of regional institutions of higher education, academic health and research institutes, and economic development entities located in the Delta Region that have experience in addressing the health care issues in the region. Grant funds may be used to finance development of health care services, health education programs, or health care job training programs; development and formation of a cooperative to produce and deliver health care services, education and job training programs; or expansion of public health-related facilities in the Delta Region to address longstanding and unmet health needs of the region.

The Small Socially Disadvantaged Producer Grants (SSDPG) program assists small minority agricultural producers in rural areas by funding cooperative development centers and cooperatives or associations of cooperatives whose primary focus is to provide assistance to such producers. The governing board and/or membership must be comprised of at least 75 percent socially disadvantaged members. Grants may be used for developing business plans, conducting feasibility studies, or developing marketing plans for farmers, ranchers, loggers, agricultural harvesters, and fishermen.

The following chart shows key performance indicators, targets and results for Business and Cooperative for FY 2014.

BUSINESS AND COOPERATIVE PERFORMANCE SCORECARD FOR FY 2014			
Rural Business-Cooperative Programs (Direct & Guaranteed combined)	FY 2014 Target	FY 2014 Actual	Results
Number of jobs created or saved through USDA financing of businesses	48,672	42,480	Unmet
Small businesses and cooperatives assisted	9,315	5,731	Unmet
B & I Guaranteed Loans and Grants			
Delinquency rate (excluding bankruptcy cases)	7.0%	4.98%	Exceeded
Renewable Energy and Efficiency			
Billions of kWh generated	9.122	13.772	Exceeded
Billions of gallons of biofuel	1.287	1.632	Exceeded

In FY 2014, RBS did not meet its target for jobs created or saved or for small businesses and cooperatives assisted. All of the RBS funds that were available in FY 2014 were not obligated by September 30, 2014; therefore we were unable to meet these targets. RBS plans to obligate the remaining funds during the first quarter of FY 2015. RBS did exceed projections for delinquency rate with the lowest B&I guaranteed loan program delinquency rate on record at 4.98 percent.

RBS also exceeded on both Renewable Energy measures in FY 2014. The exceptional performance results are due in part to continued efforts to increase efficiencies and impact by targeting resources to projects of highest priority while emphasizing quality production in loan and grant making.

Future Opportunities and Challenges

Rural America has unique challenges in meeting the needs of rural communities. As the only Federal Department with the primary responsibility of serving rural areas, Rural Development takes our responsibility to the continued revitalization of Rural America seriously. Rural Development continually evaluates its business practices to ensure they are efficient and effective, resulting in best processes, policies, and technologies to deliver our programs. Some opportunities and challenges resulting from these improvements are summarized below:

Budget Challenges and a Transforming Workplace

In the past few years, Rural Development has faced significant budgetary cuts and reductions in staff. These challenges have affected all of our program and administrative areas. Rural Development recognizes the dual need to ensure mission-critical responsibilities are met and to pursue continual process improvements so that our Agency operates as a responsible steward of taxpayer dollars.

The Agency has embraced multiple streamlining efforts to reduce operating costs. Rural Development contributed to savings under the Secretary's Blueprint for Stronger Service by consolidating and reorganizing its field office structure, which included office closures throughout the country. These continued efforts are expected to result in additional and substantial savings over the next few years. Concurrently, Rural Development also greatly reduced our General Support Budget.

In terms of staff, Rural Development's workforce has been significantly reduced over the last few years due to budget cuts. While those reductions result in significant savings in staff costs moving forward, a severely reduced work force also may risk the integrity of the delivery of programs and servicing of a rapidly growing program levels and a burgeoning portfolio. This type of dynamic strains the Agency's ability to responsibly deliver and service programs provided for and funded by Congress. Consequently, Rural Development has used this opportunity to review critical internal control functions and to strategically fill positions that will ensure we have appropriate and adequate staff to maintain the integrity of our portfolio.

On October 1, 2014, Rural Development will launch Administrative and Program Support Regionalization. Human Resources and Appraisal Services now will be handled by regional teams in our field offices. Regionalization focuses on accountability, consistency, and sustainability of our mission.

Human Resources and Appraisal Services are the first step in RD's effort to ensure our administrative operations are fine-tuned and efficient. Other administrative areas may benefit from a regional approach; however we must first assess the operation of these initial regionalization efforts.

As a result of Secretary Vilsack's Blueprint for Stronger service, which directed USDA agencies to take steps to reduce costs and modernize, Rural Development has responded to this challenge by joining in the effort with the Farm Service Agency (FSA) to combine operations and promote the development of a Loans Receivable Center of Excellence. By combining the talents of FSA and RD employees and by looking for ways to leverage shared Information Technology (IT) systems we expect to offer cutting-edge customer service.

The National Financial and Accounting Operations Center (NFAOC) will provide expert financial management, accounting, and portfolio management support for Direct and Guaranteed Credit Reform Loans and Grants for FSA and RD. The NFAOC's mission is to streamline critical financial and accounting functions, strengthen fiscal integrity, achieve efficiencies in business processes and services, leverage resources across the two mission areas, and build capacity for future expansion.

Technology and Projects

Rural Development continually looks for ways to improve, innovate, and modernize. A major challenge facing RHS is garnering resources needed to assist high poverty communities begin to grow and thrive. Needs of these communities are many and include both housing and community facilities. To assist with housing needs, MFH will work to increase capital, with a goal of investing its funding in these areas by 2016, and will encourage investment by adding additional scoring priority for funding applications to construct or revitalize rental housing in these areas. CF will, as part of its public-private partnership outreach efforts, work to attract resources, financial and otherwise, to assist with development in all rural communities, including high poverty areas.

RHS engaged a number of lean six sigma contractors to improve Guaranteed Single Family Housing (SFH-G) loan loss claim and MFH processing. Working with a diverse group from within the agency and the Department of Housing and Urban Development (HUD) and industry experts, the process identifies unnecessary and redundant tasks as well as activities which will enhance quality and timeliness. The project will reduce the time needed to complete the task, insure the government's interests are protected with a quality product, address any backlogs, and bring all tasks to a current status that the production environment can continue to maintain into the future.

The RUS electric loan program is the major source of capital for rural electric systems across rural America. RUS electric borrowers and their investment needs are driven by the same trends that influence the broader electric power industry. RUS electric program budgets and performance also reflect these influences.

The electric power industry is currently facing a need to expand and invest in electric infrastructure to replace aging components, maintain reliability, and to meet customer demand. Investment is needed to expand the transmission grid to support regional competitive markets, integration of renewable electric generation sources such as wind, and to meet more stringent environmental controls, including expected new Environmental Protection Agency (EPA) greenhouse gas emission regulations. This need persists even as overall consumer electricity demand growth has slowed because of the economic slowdown, reduced demand in the industrial sector because of structural shifts, and greater energy efficiency across all sectors. In particular, rural electric generation and transmission cooperatives are more heavily dependent on coal-fired generation than the industry as a whole and anticipate increased required investments demands to comply with new EPA regulations.

RBS's field structure of ten regions allows the Administrator to provide direction and oversight for all RBS programs nationwide. Two Regional Coordinators (East and West), and ten RBS Team Leaders (State program directors) now provide guidance to the State RBS program directors in their regions. This regional structure improves agency efficiency and effectiveness, which is vital as RBS deals with reductions to budget and staffing levels.

As a result of the 2014 Farm Bill, the Intermediary Lending Program (IRP) now has to follow the Consolidated Farm and Rural Development Act (Con Act), which immediately modified the program's rural and rural area exception definitions. This provided an opportunity for intermediaries to expand the market and make the program more accessible. This also offers an opportunity for the Agency to modify or update its regulations and procedures to streamline the process and improve the delivery of the program.

The Comprehensive Loan Program (CLP) is an ongoing information technology modernization initiative to upgrade Rural Development program delivery systems. CLP will improve the systems used to originate, service, and monitor loans and grants. The upgraded systems will have user-friendly interfaces, streamlined processes, and improve data integrity, allowing new loan and grant programs to be added more quickly.

Rural Development continues to look for ways to improve, innovate and modernize. There is additional opportunity to manage budget cuts proactively and effectively, while providing rural America with the most modern and efficient service.

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. Management has conducted its annual evaluations of internal controls and financial systems pursuant to Section 2 and Section 4 of the FMFIA, respectively, for the period ended September 30, 2014. Based on the results of the evaluations, Rural Development provides reasonable assurance that internal controls are operating effectively.

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

A material weakness identifies an instance in which the management controls are not sufficient to provide the level of assurance required by Section 2 and requires major milestones for corrective action. Such a weakness may significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements, significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

One new significant deficiency was identified during the FY 2014 Office of Management and Budget (OMB) Circular No. A-123 Appendix A (Management Accountability and Control) assessment period. The business process Human Resource Management failed testing because of ineffectively designed controls. A Corrective Action Plan (CAP) was established, 2014.85.03.001/85.03.04.02. The estimated completion date is September 30, 2015.

A significant deficiency for business process Interest Revenue from the Public-CAP 2013.85.84b.002, identified in FY 2013 was downgraded to a Control Deficiency during the FY 2014 OMB Circular No. A-123 Appendix A assessment period because of reclassified risk thresholds during FY 2014.

One significant deficiency was identified during FY 2014 in the Office of Inspector General (OIG) audit report 50601-0001-41, Procurement Management, where RD staff requested excessive funds without considering current year expenditures, and the contracting officer authorized the obligation of funds without ensuring the amounts were needed. A CAP was established, 85.2014.PM.RD.004. Office of the Chief Financial Officer (OCFO) accepted final action for all recommendations in a letter dated July 28, 2014 and closed the report.

Section 4 of the law 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 2014, no new material weaknesses and/or significant deficiencies were identified. An Information Technology (IT) significant deficiency remains outstanding that was identified in FY 2009, OIG Audit No. 85401-17-FM, regarding the rural utilities legacy system nonconformance to IT general and application controls. The revised estimated completion date for resolution is April 30, 2018.

Rural Development has fulfilled the requirements for documenting and testing of internal controls as directed by OMB Circular No. A-123.

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

Rural Development management evaluated its financial management systems under FFMIA for the period ended September 30, 2014. Based on the results of its evaluation, Rural Development is in substantial compliance with the Federal Financial Management Systems Requirements, Applicable Federal Accounting Standards, Standard General Ledger at the transaction level and Information Security, Policies, Procedures and Practices.

Noncompliance with Laws and Regulations. Rural Development reports one new reportable deficiency regarding the Government Performance and Results Act (GPRA) of 2010.

> GAO-14-511 - RUS has reported limited information on Broadband Improvement Program's (BIP) impact since awarding funds to projects, and BIP results are not tracked in the Department of Agriculture's (USDA) annual performance reporting. USDA agreed with GAO's recommendation and has instituted procedures to fully address it.

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

The IPERA of 2010, which amends the Improper Payments Information Act of 2002 (IPIA), requires that agencies annually review all programs and activities that they administer to identify those programs that may be susceptible to significant improper payments and to measure and report improper payment estimates for those high-risk programs each year. For each program identified, the agency is required to estimate the annual amount of improper payments and, if the estimate is over $10 million, report the estimate to Congress along with the actions the agency is taking to reduce those improper payments.

Rural Development responded that all of its applicable programs had been assessed and reported that the mission area had only one program, Section 521 Rental Assistance (RA), identified as potentially being susceptible to significant improper payments and meeting the requirements for a statistically valid estimate of improper payments.

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

	REPORTED IN FY 2012	REPORTED IN FY 2013	REPORTED IN FY 2014
Reduction Target (%)	2.20%	1.90%	2.20%
Outlays	$1.078 billion	$1.108 billion	$1.117 billion
Improper Payment Rate %	3.44%	1.79%	1.99%
Improper Payments ($)	$37.1 million	$19.9 million	$22.3 million

The future target rates for improvement are:

FUTURE TARGETS FOR IMPROVEMENT	FY 2015 AFR	FY 2016 AFR	FY 2017 AFR
Estimated Outlays*	$1.221 billion	$1.282 billion	$1.300 billion
Reduction Target Rate	1.90%	1.89%	1.88%
Estimated IPs ($)	$23.2 million	$24.2 million	$24.4 million

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

The RA program reduced the error rate to 1.99% from the FY 2014 target rate of 2.2%. This reduction was solely based on aggressive actions to obtain documents that borrower/management agents failed to submit during the initial review process. Rural Development continues to pursue reduction in Improper payments through adding appropriate performance elements regarding IPIA and recovery of unauthorized assistance as well as facilitating monthly accountability and program administration meetings with State and area offices.

Variance Allowances

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

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

Loan Guarantee Liability:

Rural Development is reporting an increase in the Loan Guarantee Liability reflected in the FY 2014 Consolidated Balance Sheet. The variance is attributed to an increase in Guarantee Loans in the Section 502 Rural Housing program in FY 2014 as compared to FY 2013.

Gross Costs:

Rural Development is reporting an increase in Gross Costs as reported in the FY 2014 Consolidated Statement of Net Cost. During FY 2013, Rural Development analyzed the performance of Pre-1992 direct loans receivable and defaulted guaranteed loans. Rural Development concluded that using the average rate of the last five years of write-offs more accurately estimated uncollectible amounts providing a better valuation of Rural Development's Pre-1992 loans receivable.

Agency Outlays:

Rural Development is reporting a decrease in Agency Outlays in the Statement of Budgetary Resources in FY 2014. The decrease is a result of the activity within the Rural Electric and Telecommunications (RET) programs, primarily the Cushion of Credit transfer that was processed in FY 2013.

Total Budgetary Resources:

Rural Development is reporting a decrease in Total Budgetary Resources for Non-Budgetary Accounts as reported in the FY 2014 Combined Statement of Budgetary Resources. The change occurred as of result of the following:

- A significant decrease in borrowing authority resulting from lower obligations incurred related to the RET program, primarily Federal Financing Bank (FFB) loans.
- A decrease in offsetting collections as a result of decreased principal collections in WEP and RET programs.
- An increase in amounts actually transferred by non-expenditure transfer during the fiscal year from prior-year balances to repay debt in the Rural Housing, RET, WEP, DLT, and Broadband programs.

Rural Development is reporting an increase in Total Budgetary Resources for Budgetary Accounts as reported in the FY 2014 Combined Statement of Budgetary Resources. The change occurred as a result of the following:

- An increase in Spending Authority resulting from offsetting collections from Cushion of Credit accounts within the RET program.
- An increase in Appropriations for the RET loan program and Rural Rental Assistance Grants.
- To a lesser extent the reduction of the non-expenditure transfer of RET Liquidating funds transferred in FY 2013 as compared to FY 2014.

Limitations of the Financial Statements

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

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

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Millions)

	2014	2013
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 20,401	$ 18,945
Accounts Receivable, Net (Note 4)	0	0
Other (Note 7)	0	0
Total Intragovernmental	20,401	18,945
Loans Receivable and Related Foreclosed Property, Net (Note 5)	89,907	89,445
General Property, Plant and Equipment, Net (Note 6)	43	46
Other (Note 7)	37	37
Total Assets	**110,388**	**108,473**
Liabilities (Note 8):		
Intragovernmental:		
Accounts Payable	2	3
Debt (Note 9)	91,653	89,394
Resources Payable to Treasury (Note 1M)	9,002	9,633
Downward Reestimates Payable to Treasury General Fund (Note 1N)	871	1,092
Other (Note 10)	11	23
Total Intragovernmental	101,539	100,145
Accounts Payable	26	26
Loan Guarantee Liability (Note 5)	5,176	4,573
Federal Employee and Veteran Benefits (Note 8)	38	40
Other (Note 10)	162	184
Total Liabilities	**106,941**	**104,968**
Commitments and Contingencies (Note 11)		
Net Position:		
Unexpended Appropriations	4,166	4,643
Cumulative Results of Operations	(719)	(1,138)
Total Net Position	**3,447**	**3,505**
Total Liabilities and Net Position	**$ 110,388**	**$ 108,473**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Millions)

	2014	2013
Strategic Goal:		
Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.		
Program Costs (Note 12):		
Intragovernmental Gross Costs		
Borrowing Interest Expense	$ 3,847	$ 3,800
Other	305	305
Total Intragovernmental Gross Costs	4,152	4,105
Less: Intragovernmental Earned Revenue (Note 13)	548	540
Intragovernmental Net Costs	**3,604**	**3,565**
Gross Costs with the Public:		
Grants	2,276	2,717
Loan Cost Subsidies	1,030	1,133
Other	740	(3,125)
Total Gross Costs with the Public	4,046	725
Less: Earned Revenues from the Public (Note 13)	3,647	3,560
Net Costs with the Public	**399**	**(2,835)**
Net Cost of Operations	**$ 4,003**	**$ 730**

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 ENDED SEPTEMBER 30, 2014 AND 2013
(In Millions)

	2014	2013
Cumulative Results of Operations		
Beginning Balances:	$ (1,138)	$ (898)
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**(1,138)**	**(898)**
Budgetary Financing Sources:		
Other Adjustments	(200)	(213)
Appropriations Used	5,246	5,492
Transfers-In/Out Without Reimbursement	393	91
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	0	0
Imputed Financing	109	111
Other	(1,126)	(4,991)
Total Financing Sources	**4,422**	**490**
Net Cost of Operations	(4,003)	(730)
Net Change	419	(240)
Total Cumulative Results of Operations	**$ (719)**	**$ (1,138)**
Unexpended Appropriations		
Beginning Balances:	$ 4,643	$ 5,958
Adjustments		
Changes in Accounting Principles	0	0
Corrections of Errors	0	0
Beginning Balances, as Adjusted	**$ 4,643**	**$ 5,958**
Budgetary Financing Sources:		
Appropriations Received	4,825	4,408
Appropriations Transferred In/Out	(3)	3
Other Adjustments	(53)	(234)
Appropriations Used	(5,246)	(5,492)
Total Budgetary Financing Sources	**(477)**	**(1,315)**
Total Unexpended Appropriations	**4,166**	**4,643**
Net Position	**$ 3,447**	**$ 3,505**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Millions)

	2014		**2013**	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 5,483	$ 7,764	$ 5,920	$ 4,287
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	5,483	7,764	5,920	4,287
Recoveries of Prior Year Unpaid Obligations	209	1,135	264	814
Other Changes in Unobligated Balance	(378)	(4,133)	(1,032)	(1,711)
Unobligated Balance from Prior Year Budget Authority, Net	5,314	4,766	5,152	3,390
Appropriations	5,422	21	4,672	0
Borrowing Authority (Notes 15 and 16)	0	7,122	0	9,520
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	3,399	8,251	2,410	9,117
Total Budgetary Resources	**$ 14,135**	**$ 20,160**	**$ 12,234**	**$ 22,027**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	$ 7,637	$ 11,788	$ 6,751	$ 14,263
Unobligated Balance, End of Year:				
Apportioned	3,836	5,230	2,468	4,213
Exempt From Apportionment	0	0	0	0
Unapportioned	2,662	3,142	3,015	3,551
Total Unobligated Balance, End of Year	6,498	8,372	5,483	7,764
Total Budgetary Resources	**$ 14,135**	**$ 20,160**	**$ 12,234**	**$ 22,027**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 4,723	$ 24,543	$ 6,292	$ 25,725
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	7,637	11,788	6,751	14,263
Outlays	(7,791)	(12,711)	(8,056)	(14,631)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(209)	(1,135)	(264)	(814)
Unpaid Obligations, End of Year	4,360	22,485	4,723	24,543
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(20)	(743)	(20)	(900)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	8	102	0	157
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(12)	(641)	(20)	(743)
Memorandum Entries				
Obligated Balance, Start of Year	4,703	23,800	6,272	24,825
Obligated Balance, End of Year	4,348	21,844	4,703	23,800
Budget Authority and Outlays, Net:				
Budget Authority, Gross	$ 8,821	$ 15,394	$ 7,082	$ 18,637
Actual Offsetting Collections	(4,669)	(10,667)	(4,041)	(11,257)
Change in Uncollected Customer Payments From Federal Sources	8	102	0	157
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**$ 4,160**	**$ 4,829**	**$ 3,041**	**$ 7,537**
Outlays, Gross	$ 7,791	$ 12,711	$ 8,056	$ 14,631
Actual Offsetting Collections	(4,669)	(10,667)	(4,041)	(11,257)
Outlays, Net	3,122	2,044	4,015	3,374
Distributed Offsetting Receipts	0	(1,381)	0	(1,059)
Agency Outlays, Net	**$ 3,122**	**$ 663**	**$ 4,015**	**$ 2,315**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Rural Development

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2014 AND 2013 (In Millions)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Rural Development prepares financial statements to report the financial position and results of operations of the United States Department of Agriculture (USDA) Rural Development mission area. In accordance with the Office of Management and Budget (OMB) *Circular 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).

In FY 2014, footnote line reclassifications occurred on Loans Receivable and Related Foreclosed Property, Net **(Note 5)** and Other Liabilities **(Note 10)**. See the individual notes for a description of the change.

B. Reporting Entity

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354, was signed into law and permitted the reorganization of the Department of Agriculture. This law reaffirmed Rural Development's statutory authority. The mission area improves the economy and quality of life in all of rural America by providing funding for rural housing programs, rural utilities programs, and rural business programs within the USDA.

C. Basis of Accounting

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

Rural Development utilizes the cash, accrual, and budgetary accounting basis while preparing the financial statements. The cash accounting basis recognizes Pre-Credit Reform and Credit Reform nonfederal transactions, except for the accrual of interest related to borrower loans. Under the cash method, Rural Development recognizes revenues when cash is received and expenses when they are paid. Federal transactions utilize the accrual accounting basis. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of federal funds.

Rural Development eliminates all significant interfund and intrafund balances and transactions in the consolidation, except for those Credit Reform transactions impacting the Combined Statement of Budgetary Resources and Reconciliation of Net Cost of Operations to Budget **(Note 23)**.

NOTE 1: Continued

Fiduciary assets are not assets of Rural Development and, as such, are not recognized on the Balance Sheet. See **Note 24**, Fiduciary Activity.

D. Estimates

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

E. Revenue and Other Financing Sources

Revolving/Credit Funds:

Beginning in FY 1992, the Federal Credit Reform Act of 1990, as amended, contained in the Omnibus Budget Reconciliation Act of 1990, provided Credit Reform procedures which affected the financing of the revolving funds. Under Credit Reform, Rural Development receives an appropriation in the year the loan is made in a sufficient amount to cover the subsidy cost of providing the loan. The subsidy cost is defined as the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. Consequently, the implementation of Credit Reform has resulted in authorized appropriations, which provide for estimated future losses, as opposed to appropriations, which provided for reimbursement of past losses actually sustained prior to FY 1992. In addition to subsidy appropriations, the other sources of funding for the revolving funds include borrowings from the Treasury and borrower loan repayments.

General Funds:

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

F. Fund Balance with Treasury

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

NOTE 1: Continued

G. Lending Activities

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

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

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

H. Loans Receivable and Related Foreclosed Property, Net

Rural Development establishes a loan receivable after funds have been disbursed. They are carried at their principal amount outstanding (**Note 5**), and accrue interest based on the contractual interest rate. When a loan becomes nonperforming (in excess of 90 days delinquent or when borrowers enter into troubled debt restructuring arrangements), all interest previously accrued on the loan is reversed for financial reporting purposes, and interest income on the nonperforming loan is then recognized only to the extent of the collections received. Rural Development reclassifies nonperforming loans as performing and accrues interest when they become current or less than 90 days delinquent. In addition, interest income recognition subsequent to troubled debt restructuring arrangements is generally limited to net present value of the adjusted future cash flows.

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

Present value and net realizable value are used to value the remaining interest and principal. **Note 5** provides additional information on the methods used for the direct and guaranteed loans.

I. General Property, Plant, and Equipment, Net

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

Rural Development accounts for the costs of internal use software in accordance with SFFAS No. 10, Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of the cost of internal use software whether it is commercial off-the-shelf, contractor-developed, or internally-developed which solely meets internal or operational needs. As defined in SFFAS No. 6, Accounting for Property, Plant, and Equipment, Rural Development classifies internal use software as General Property, Plant, and Equipment. The threshold for equipment is $25,000 and internal use software is $100,000. See **Note 6** for further information.

NOTE 1: Continued

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. However, no liability can be paid absent budget authority. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources. There is no certainty that appropriations will be enacted.

K. Borrowings/Interest Payable to Treasury

Borrowings payable to Treasury result from the Secretary of Agriculture's authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations. These funds make periodic principal and interest payments to Treasury in accordance with established agreements.

L. Pension and Other Employee Benefits

Rural Development recognizes pension and other employee benefits (primarily health care benefits) expense at the time employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. Rural Development recognizes an imputed cost for the difference between the expense and contributions made by and for employees.

M. Resources Payable to Treasury

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

N. Downward Reestimates Payable to Treasury General Fund

Rural Development records the liability for downward reestimates in accordance with the Treasury General Fund Receipt (GFR) Account Guide, most notably the section which illustrates the accounting and reporting requirements for Non-Custodial Statement collections applicable to collections of downward reestimates of subsidy expense. As direct and/or guaranteed loan financing accounts collect more subsidy than is necessary to fund future net cash outflows, the applicable financing account must transfer the excess subsidy, with interest, to a designated Treasury GFR Account pursuant to the Federal Credit Reform Act of 1990, as amended. As this transfer does not occur until the following year, these excess funds are included in the Reported Fund Balance with Treasury and are considered non-entity assets.

O. Contingencies

The Rural Development mission area is a party in various legal actions and claims through the normal course of its operations. In the opinion of management and the USDA Office of the General Counsel, the ultimate resolution of these legal actions and claims will not materially affect the financial position or results of operations **(Note 11)**.

NOTE 1: Continued

P. Unexpended Appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of the general funds and the program accounts which receive Congressional appropriations through the budgetary process. As appropriated funds incur obligations, Rural Development records the obligated amount as an undelivered order (**Note 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.

Q. Intragovernmental Financial Activities

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

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

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

R. Allocation Transfers

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

NOTE 2: NON-ENTITY ASSETS

Non-Entity Assets represent assets that are "NOT FOR USE" by Rural Development. Intragovernmental Fund Balance with Treasury represents the amount of Rural Housing Escrow Funds on deposit with U.S. Bank as of September 30, 2014. Rural Development reports this balance of federal funds related to the operation of the Escrow Program and also reports as Non-Budgetary Fund Balance with Treasury in **Note 3**.

	FY 2014	FY 2013
With the Public		
Cash and Other Monetary Assets	$ 0	$ 0
Intragovernmental		
Fund Balance with Treasury	$ 40	$ 41
Total Non-Entity Assets	$ 40	$ 41
Total Entity Assets	$ 110,348	$ 108,432
Total Assets	**$ 110,388**	**$ 108,473**

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 2014) 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 2014 and 2013, there were approximately $74 million and $77 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 2014	FY 2013
Fund Balances:		
Revolving Funds	$ 14,880	$ 13,218
General Funds	5,522	5,728
Other Fund Types	(1)	(1)
Total	**$ 20,401**	**$ 18,945**
Status of Fund Balance with Treasury (FBWT):		
Unobligated Balance:		
Available	$ 9,066	$ 6,681
Unavailable	5,804	6,566
Obligated Balance Not Yet Disbursed	26,192	28,503
Borrowing Authority Not Yet Converted to Fund Balance	(20,630)	(22,760)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(71)	(85)
Temporary Reduction of New Budget Authority	1	0
Non-Budgetary Fund Balance with Treasury	39	40
Total	**$ 20,401**	**$ 18,945**

NOTE 4: ACCOUNTS RECEIVABLE (A/R), NET

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2014			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	15	15	0
Total Accounts Receivable	**$ 15**	**$ 15**	**$ 0**
FY 2013			
Intragovernmental			
A/R Revenue, Refunds, Reimbursements	0	0	0
Total Intragovernmental Accounts Receivable	**$ 0**	**$ 0**	**$ 0**
With the Public			
Audit Receivable	11	11	0
Total Accounts Receivable	**$ 11**	**$ 11**	**$ 0**

NOTE 5: LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET

DISCUSSION OF CREDIT PROGRAMS AND CHARACTERISTICS

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

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

The rural business program goal is to promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

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

Direct Loans and Loan Guarantees

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

For direct loans made pre-1992, Rural Development uses the Net Realizable Value methodology to value the remaining interest and principal portfolio. The difference between FY 2013 and 2014 resulted in an increase in the allowance for loans made pre-1992 of approximately $98 million (see **Table 1**).

NOTE 5: Continued

Rural Development List of Programs

RURAL HOUSING PROGRAMS

- Community Facilities Direct and Guaranteed Loans
- Farm Labor Housing Direct Loans
- Multi-Family Housing Credit Sales
- Multi-Family Housing Direct and Guaranteed Loans
- Multi-Family Housing Relending Program
- Multi-Family Housing Revitalization Program
- Self-Help Housing Direct Loans
- Single Family Housing Credit Sales
- Single Family Housing Direct and Guaranteed Loans

RURAL UTILITIES PROGRAMS

- Distance Learning, Telemedicine, and Broadband Direct Loans
- Electric Direct and Guaranteed Loans
- Federal Financing Bank Electric Program
- Telecommunications Direct Loans
- Federal Financing Bank Telecommunications Program
- Water and Environmental Direct and Guaranteed Loans

RURAL BUSINESS-COOPERATIVE PROGRAMS

- Biorefinery Assistance Guaranteed Loans
- Business and Industry Direct and Guaranteed Loans
- Intermediary Relending Program Direct Loans
- Rural Energy for America Guaranteed Loans (formerly Renewable Energy)
- Rural Economic Development Direct Loans
- Rural Microenterprise Investment Direct Loans

NOTE 5: Continued

Program Characteristics

PROGRAM CHARACTERISTICS – DIRECT			
MAJOR PROGRAMS	**REPAYMENT PERIOD**	**INTEREST RATE**	**UNIQUE SERVICING OPTION**
Housing • **Single Family**	Maximum 30-38 years per program	Current	Payment assistance - payment moratoriums - loan reamortization
• **Multi-Family**	1997 and prior – 50 years Subsequent – 50 years amortization with 30 year repayment and balloon	Current	Payment assistance - rental assistance to tenants
Community Facility	Maximum 40 years	4.5% to current	Workout agreements – loan reamoritization
Farm Labor	Maximum 33 years	1%	Workout agreements
Water and Environmental	Useful life not to exceed 40 years	Current rate not to exceed 5%	Principal payment deferments – loan reamortization – loan transfers
Electric	Maximum 35 years	Current or 5%	Payment deferments – loan reamortization – discounted loan prepayments. Loans prior to 11/93 are eligible for interest rates from 2-5%
Telecommunications	Expected composite economic life (depreciated life plus 3 years for Traditional Program) Expected useful life not to exceed 35 years	5% or Current up to 7% 5% or more	Payment extension
Rural Economic Development Loans	Maximum 10 years	0%	Payment deferment for up to 2 years
Intermediary Relending	Maximum 30 years	1%	Payment moratoriums
Business and Industry	Maximum 7-30 years per program	Current	Loan reamortization – loan transfer
Distance Learning, Telemedicine, and Broadband	Maximum 35 years	Current or 4%	Payment extension
Rural Microenterprise Investment	Maximum 20 years	2%	Initial payment deferment for 2 years

NOTE 5: Continued

PROGRAM CHARACTERISTICS – GUARANTEED			
MAJOR PROGRAMS	**REPAYMENT PERIOD**	**INTEREST RATE**	**UNIQUE SERVICING OPTION**
Housing • **Single Family** • **Multi-Family**	Maximum 30 years Maximum 40 years	Lender Lender	Maximum 90% guarantee. One time guarantee fee of 3.5% for purchase and 1% for refinance. Loans may be sold to third party. .4% to .5% annual fee is also charged.
Community Facilities	Maximum 40 years	Lender	Maximum 90% guarantee. One time guarantee fee of 1%. Loans may be sold to third party.
Electric	Maximum 35 years	Lender	100% Guarantee
Business and Industry	Maximum 7-30 years per program	Lender	Guarantee maximum 60-90%. One time guarantee fee of 2% to 3%. .25% annual fee is also charged.
Business and Industry – American Recovery and Reinvestment Act	Maximum 7-30 years	Lender	Guarantee maximum 90%. One time guarantee fee of 1%. No annual fee is charged.
Water and Environmental	Maximum 40 years	Lender	Rates will be negotiated between the lender and the borrower. They may be fixed or variable rates. One time guarantee fee of 1%.
Rural Energy for America (formerly Renewable Energy)	Maximum 30 years for Real Estate Maximum 20 years for Machinery & Equipment or useful life whichever is less Maximum 30 years for combined Real Estate and Machinery & Equipment Maximum 7 years for Working Capital	Lender	Maximum loan of $25 million or 75% of project cost whichever is less. First payment should be scheduled after project is operational. .25% annual fee is also charged.
Biorefinery Assistance	Maximum 20 years or useful life of the project, whichever is less	Lender	Maximum 90% guarantee. One time guarantee fee of 3% . 1% annual fee is also charged.

NOTE 5: Continued

OTHER INFORMATION RELATED TO DIRECT LOANS AND LOAN GUARANTEES

RECLASSIFICATIONS

As a result of a detailed review of the Credit Reform Case Study, and discussions with both OMB and the USDA Office of the Chief Financial Officer (OCFO), a change in the presentation of Other Interest associated with a reestimate was made in both FY 2014 and 2013, respectively. In previous years, the Other Interest was included as part of the interest rate reestimate component. Beginning in FY 2014, Other Interest will be included as a part of the technical reestimate component. This breakout is shown in Direct Loans **Tables 2** and **3** and Guaranteed Loans **Tables 6b** and **7**.

Additionally, a separate review of the Post 1991 Guaranteed Loan Liability as presented in **Table 6b** occurred. As a result, activity was reclassified from Claim Payments to Lenders and Other to a new line entitled Acquired Loans.

FORECLOSED PROPERTY/LOANS ACQUIRED

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

For FY's 2014 and 2013, rural housing program properties consist primarily of 1,667 and 1,547 rural single-family dwellings, respectively. The average holding period for single family housing properties in inventory was 15 months for both FY's 2014 and 2013. The approximate number of borrowers for which foreclosure proceedings were in process at the end of FY's 2014 and 2013 was 16,083 and 14,334, respectively. Rural Development allows leasing certain properties to eligible individuals.

NON-PERFORMING LOANS

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

INTEREST CREDIT

Approximately $17.1 billion and $17.9 billion of the rural housing programs unpaid loan principal as of September 30, 2014 and 2013, respectively, was receiving interest credit (payment assistance). If those loans receiving interest credit had interest accrued at the full-unreduced rate, interest income would have been approximately $854 million and $892 million higher for FY's 2014 and 2013, respectively. At the end of FY's 2014 and 2013, the Rural Development housing portfolio contained approximately 64.3 thousand and 66.3 thousand restructured loans with an outstanding unpaid principal balance of $2.8 billion in both years.

MODIFICATIONS

A modification is any government action different from actions in the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. This includes the sale of loan assets and any action resulting from new legislation. Modifications may also occur from the exercise of administrative discretion under existing law that directly or indirectly alters the estimated cost of

NOTE 5: Continued

outstanding direct loans or loan guarantees. The cost of a modification is the difference between the net present value of the cash flows before and after the modification.

Multi-Family Housing direct loan modifications related to the revitalization program, which began in FY 2006, continued through FY 2014. In this program, Rural Development provides restructured loans and grants to development owners to revitalize multi-family housing development projects in order to extend the affordable use without displacing tenants due to the increased rent.

In FY 2014, two FFB borrowers were granted loan term extension modifications. No other terms of the original notes changed other than the final maturity dates.

SUBSIDY RATES AND REESTIMATES

The Federal Credit Reform Act of 1990, as amended, and OMB Circular A-11, govern the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as “subsidy cost.” Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are estimated annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows. Reestimates are revisions of the subsidy cost estimate of a cohort (or risk category) based on information about the actual performance and/or estimated changes in future cash flows of the cohort. In FY 2014 and 2013, reestimates using projected fiscal year activity were recorded in the current fiscal year.

In FY 2014 and FY 2013, Rural Development guaranteed loan programs recorded prior year actual budgetary reestimates and current year activity projected reestimates for material programs. A key sensitive element in the guaranteed programs is defaults. Additionally, fees and other collections are significant in the guaranteed housing and business and industry programs.

Based on a sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the OMB in order to do its calculations and analysis.

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

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

NOTE 5: 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 2014 and FY 2013. Loans receivable and related foreclosed property, net balances at the end of FY 2014 were $90 billion compared to $89 billion at the end of FY 2013. Defaulted guaranteed loans were $283 million and $288 million at the end of FY's 2014 and 2013, respectively.

Beginning in FY 2012, advance payments surpassed the loans receivable balance in the Liquidating Fund. This was due to an increased volume in advance payments and a normal reduction to the Liquidating Portfolio. 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 5: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

FY 2014	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [1]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 7,798	$ 57	$ 24	$ (19)	$ 7,860
Electric Loans	3,065	5	0	(1,230)	1,840
Telecommunication Loans	253	0	0	0	253
Rural Development [2]	616	6	0	(2)	620
Development Loan Funds	17	0	0	0	17
Pre-1992 Total	**11,749**	**68**	**24**	**(1,251)**	**10,590**
Obligated Post-1991					
Housing Loans	18,056	104	78	(2,787)	15,451
Community Facility Loans	5,086	44	1	(103)	5,028
Electric Loans	48,140	24	0	(1,017)	47,147
Telecommunication Loans	4,285	1	0	55	4,341
Water and Environmental Loans	11,952	94	0	(410)	11,636
Development Loan Funds	405	2	0	(114)	293
Business and Industry Funds	36	0	0	26	62
Economic Development	158	0	0	(13)	145
Post-1991 Total	**88,118**	**269**	**79**	**(4,363)**	**84,103**
Cushion of Credit Advance Payments	**(5,069)**	**0**	**0**	**0**	**(5,069)**
Total Direct Loans Receivable	**94,798**	**337**	**103**	**(5,614)**	**89,624**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development [2]	0	0	0	0	0
Post-1991					
Community Facilities	10	0	0	(1)	9
Business and Industry	273	2	0	(42)	233
Housing Loans	997	2	0	(958)	41
Total Defaulted Guaranteed Loans	**$ 1,280**	**$ 4**	**$ 0**	**$ (1,001)**	**$ 283**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 89,907**

[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.

[2] Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and Fund.

NOTE 5: Continued

TABLE 1: TOTAL CREDIT PROGRAM RECEIVABLE AND RELATED FORECLOSED PROPERTY

FY 2013	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance [3]	Value of Assets
Direct Loans					
Obligated Pre-1992					
Housing Loans	$ 8,142	$ 71	$ 29	$ (20)	$ 8,222
Electric Loans	3,539	3	0	(1,132)	2,410
Telecommunication Loans	321	0	0	(0)	321
Rural Development[4]	749	8	0	(1)	756
Development Loan Funds	21	0	0	0	21
Other Programs	0	0	0	0	0
Pre-1992 Total	**12,772**	**82**	**29**	**(1,153)**	**11,730**
Obligated Post-1991					
Housing Loans	18,107	100	72	(2,964)	15,315
Community Facility Loans	4,725	44	0	9	4,778
Electric Loans	46,006	27	0	(1,053)	44,980
Telecommunication Loans	4,414	2	0	141	4,557
Water and Environmental Loans	11,576	98	2	(350)	11,326
Development Loan Funds	419	2	0	(122)	299
Business and Industry Funds	34	0	0	28	62
Economic Development	124	0	0	(13)	111
Post-1991 Total	**85,405**	**273**	**74**	**(4,324)**	**81,428**
Cushion of Credit Advance Payments	**(4,001)**	**0**	**0**	**0**	**(4,001)**
Total Direct Loans Receivable	**94,176**	**355**	**103**	**(5,477)**	**89,157**
Defaulted Guaranteed Loans					
Pre-1992					
Rural Development[4]	1	0	0	0	1
Post-1991					
Community Facilities	13	0	0	(1)	12
Business and Industry	309	4	0	(78)	235
Housing Loans	805	1	0	(766)	40
Total Defaulted Guaranteed Loans	**$ 1,128**	**$ 5**	**$ 0**	**$ (845)**	**$ 288**
Total Loans Receivable and Related Foreclosed Property, Net					**$ 89,445**

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

[4] Prior to Credit Reform, Water and Environmental, Business and Industry and Community Facilities were combined under one Treasury Symbol and Fund.

NOTE 5: 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 2013 to FY 2014. The subsidy cost allowance in FY 2014 was $5.4 billion compared to $5.2 billion in FY 2013, an increase of $.2 million.

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

Beginning Balance, Changes, and Ending Balance	**FY 2014**	**FY 2013**
Beginning Balance of the Subsidy Cost Allowance	$ 5,169	$ 4,722
Add subsidy expense for direct loans disbursed during the year by component:		
Interest rate differential costs	4	102
Default costs (net of recoveries)	70	77
Fees and other collections	(13)	(12)
Other subsidy costs	(60)	(67)
Total of the above subsidy expense components	1	100
Adjustments:		
Loan modifications	(23)	4
Fees received	65	65
Loans written off	(650)	(536)
Subsidy allowance amortization	(163)	(180)
Other	504	549
Ending balance of the subsidy cost allowance before reestimates	4,903	4,724
Add or subtract reestimates by component:		
Interest rate reestimates	86	(215)
Technical/default reestimates	375	660
Total of the above reestimate components	461	445
Ending Balance of the Subsidy Cost Allowance	**$ 5,364**	**$ 5,169**

NOTE 5: 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 2014 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 2014 and 2013 by program. Total direct loan subsidy expense in FY 2014 was $439 million compared to $549 million in FY 2013, a decrease of $110 million.

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 2014										
Housing Loans	$ 20	$ 31	$ 0	$ 3	$ 54	$ 1	$ 131	$ (88)	$ 43	**$ 98**
Community Facility Loans	(21)	12	0	(5)	(14)	0	34	110	144	**130**
Electric Loans	(100)	13	(13)	(42)	(142)	(24)	(60)	136	76	**(90)**
Telecommunications Loans	(1)	12	0	(5)	6	0	8	162	170	**176**
Water and Environmental Loans	93	2	0	(11)	84	0	(20)	48	28	**112**
Development Loan Funds	6	0	0	0	6	0	(3)	3	0	**6**
Business and Industry Funds	1	0	0	0	1	0	(2)	5	3	**4**
Economic Development Loans	6	0	0	0	6	0	(2)	(1)	(3)	**3**
Total Subsidy Expense, Direct Loans	**$ 4**	**$ 70**	**$ (13)**	**$ (60)**	**$ 1**	**$ (23)**	**$ 86**	**$ 375**	**$ 461**	**$ 439**
FY 2013										
Housing Loans	$ 56	$ 28	$ 0	$ 5	$ 89	$ 4	$ (102)	$ 389	$ 287	**$ 380**
Community Facility Loans	(6)	11	0	(3)	2	0	(70)	83	13	**15**
Electric Loans	(93)	14	(12)	(51)	(142)	0	(29)	385	356	**214**
Telecommunications Loans	0	19	0	(7)	12	0	(19)	86	67	**79**
Water and Environmental Loans	133	5	0	(11)	127	0	6	(282)	(276)	**(149)**
Development Loan Funds	6	0	0	0	6	0	0	(4)	(4)	**2**
Business and Industry Funds	1	0	0	0	1	0	0	3	3	**4**
Economic Development Loans	5	0	0	0	5	0	(1)	0	(1)	**4**
Total Subsidy Expense, Direct Loans	**$ 102**	**$ 77**	**$ (12)**	**$ (67)**	**$ 100**	**$ 4**	**$ (215)**	**$ 660**	**$ 445**	**$ 549**

NOTE 5: Continued

Direct Loans Disbursed

Volume distribution between programs is shown in **Table 4**. Direct loans disbursed in FY 2014 were $6.8 billion compared to $8.7 billion in FY 2013, a decrease of $1.9 billion.

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

	FY 2014	FY 2013	FY 2014 Over/Under FY 2013
Housing Loans	$ 869	$ 877	$ (8)
Community Facility Loans	650	780	(130)
Electric Loans	3,869	4,956	(1,087)
Telecommunications Loans	430	661	(231)
Water and Environmental Loans	938	1,373	(435)
Development Loan Funds	18	17	1
Business and Industry Loans	5	6	(1)
Economic Development	57	34	23
Total Direct Loans Disbursed	**$ 6,836**	**$ 8,704**	**$ (1,868)**

NOTE 5: Continued

Subsidy rates are used to compute each year's subsidy expense. **Table 5** has the direct loan subsidy rates for FY 2014. The subsidy rates disclosed in **Table 5** pertain only to the FY 2014 cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for loans reported in the current year could result from disbursements of loans from current year and prior year cohorts.

TABLE 5: SUBSIDY RATES FOR DIRECT LOANS (PERCENTAGE)

FY 2014	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	-1.49	4.46	0.00	-0.25	2.72
Section 504 Housing Repair	11.88	-0.03	0.00	-3.57	8.28
Credit Sales Section 203 (SFH)	-12.68	2.20	0.00	1.51	-8.97
Section 514 Farm Labor Housing	24.30	0.09	0.00	-0.68	23.71
Section 515 Multi-Family Housing	-13.31	0.39	0.00	36.33	23.41
Section 523 Self-Help Housing Land Development	-4.56	0.00	0.00	0.05	-4.51
Section 524 Housing Site Development	-6.02	0.00	0.00	0.07	-5.95
Credit Sales Section 209 (MFH)	Not Funded				
Multi-Family Housing Relending	26.16	0.00	0.00	0.00	26.16
Multi-Family Housing Revitalization Seconds	50.99	0.28	0.00	-0.02	51.25
Multi-Family Housing Revitalization Zero	48.80	0.21	0.00	-0.15	48.86
Community Facilities	-15.90	2.48	0.00	0.21	-13.21
Distance Learning and Telemedicine	Not Funded				
Broadband	0.00	15.15	0.00	-2.10	13.05
Water & Environmental	1.53	0.13	0.00	-2.53	-0.87
Electric Hardship	Not Funded				
FFB Electric	-1.89	0.07	0.00	-1.49	-3.31
Telephone Hardship	Not Funded				
Telephone Treasury	0.00	0.29	0.00	-1.48	-1.19
FFB Telephone	Not Funded				
Intermediary Relending Program	22.80	0.11	0.00	-1.30	21.61
Rural Economic Development	8.49	0.01	0.00	-0.05	8.45
Rural Microenterprise Loans	Not Funded				
Electric Underwriters	Not Funded				

NOTE 5: Continued

ANALYSIS OF DIRECT LOANS

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

HOUSING PROGRAMS

The Housing Programs had an overall net upward reestimate of $41 million. The majority of the $41 million upward reestimate is due to actual prepayments that were less than predicted prepayments for the Single Family Housing loans. As a result of lower actual prepayments, loans remain outstanding for longer periods; hence, borrowers receive more payment assistance. Therefore, lower prepayments produce higher interest rate assistance over the life of the cohort, which contributes to a higher subsidy rate.

DIRECT COMMUNITY FACILITY

The Community Facility Programs had an overall upward reestimate of $143 million. The overall upward reestimate is attributed to an increase in actual principal written off. Additionally, for cohort years 2011-2013, which are still disbursing, the upward reestimate is a result of a true up of the actual SER to the formulation SER.

WATER AND ENVIRONMENTAL PROGRAM

The Water and Environmental (WEP) Program had an overall downward reestimate of $27 million. The WEP downward reestimate is due to unusual high actual prepayments of principal during Cash Flow (CF) years 2012-2014. The increase in principal prepayments is due to significantly lower interest rates offered by the private sector since 2008.

DIRECT BROADBAND TREASURY RATE

The Direct Broadband Treasury Rate Program had a significant net upward reestimate of $119 million. The majority of the upward reestimate is in cohort year 2010, which accounts for $127 million of the overall reestimate. The forecasted principal write off for the Direct Broadband Program was increased to account for the expected increase in write-off activity.

NOTE 5: 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 2014 increased compared to the FY 2013 portfolio. **Table 6** shows the outstanding balances by loan program. At the end of FY 2014 and FY 2013, there were $109.5 billion and $97.2 billion in outstanding principal (face value) and $97.5 billion and $87.9 billion in outstanding principal (guaranteed), respectively.

TABLE 6: LOAN GUARANTEES OUTSTANDING

	Post-1991 Outstanding Principal Face Value	Post-1991 Outstanding Principal Guaranteed
FY 2014		
Housing Loans	$ 101,618	$ 91,455
Community Facility Loans	1,247	1,105
Electric Loans	183	183
Business and Industry Loans	6,313	4,698
Water and Environmental Loans	96	85
Total Guarantees Outstanding	**$ 109,457**	**$ 97,526**
FY 2013		
Housing Loans	$ 88,921	$ 81,441
Community Facility Loans	1,243	1,097
Electric Loans	188	188
Business and Industry Loans	6,725	5,001
Water and Environmental Loans	79	69
Total Guarantees Outstanding	**$ 97,156**	**$ 87,796**

NOTE 5: Continued

Liability for Loan Guarantees

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. **Table 6a** shows the loan guarantee liability. **Table 6b** shows the liability reconciliation for post-1991 guarantees. In FY 2014, the total liabilities increased by $603 million compared to FY 2013.

TABLE 6a: LIABILITY FOR LOAN GUARANTEES

	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value
FY 2014	
Liability for Loan Guarantees	
Housing Loans	$ 4,442
Community Facility Loans	71
Electric Loans	0
Business and Industry Loans	662
Water and Environmental Loans	1
Total Liabilities for Loan Guarantees	**$ 5,176**
FY 2013	
Liability for Loan Guarantees	
Housing Loans	$ 3,706
Community Facility Loans	74
Electric Loans	0
Business and Industry Loans	793
Water and Environmental Loans	0
Total Liabilities for Loan Guarantees	**$ 4,573**

NOTE 5: Continued

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

Beginning Balance, Changes, and Ending Balance	**FY 2014**	**FY 2013**
Beginning Balance of the Loan Guarantee Liability	$ 4,573	$ 4,114
Add subsidy expense for guaranteed loans disbursed during the year by component:		
Interest supplement costs	1	1
Default costs (net of recoveries)	957	873
Fees and other collections	(922)	(865)
Other subsidy costs	0	0
Total of the above subsidy expense components	36	9
Adjustments:		
Loan guarantee modifications	0	0
Fees received	552	530
Interest supplements paid	(9)	(8)
Claim payments to lenders	(605)	(687)
Interest accumulation on the liability balance	92	85
Loan Acquired	(21)	(67)
Other	3	22
Ending balance of the loan guarantee before reestimates	4,621	3,998
Add or subtract reestimates by component:		
Interest rate reestimates	36	41
Technical/default reestimates	519	534
Total of the above reestimate components	555	575
Ending Balance of the Loan Guarantee Liability (Post 1991)	**$ 5,176**	**$ 4,573**

NOTE 5: 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 2014 and FY 2013 by loan program. Total guaranteed loan subsidy expense in FY 2014 was $591 million compared to $584 million in FY 2013, an increase of $7 million.

TABLE 7: GUARANTEED LOAN SUBSIDY EXPENSE BY PROGRAM AND COMPONENT

	Subsidy Expense for New Guaranteed Loans Disbursed					Modifications and Reestimates				
Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modification	Interest Rate	Technical	Total	GRAND TOTAL
FY 2014										
Housing Loans	$ 1	$ 858	$ (887)	$ 0	$ (28)	$ 0	$ 32	$ 694	$ 726	**$ 698**
Community Facility Loans	0	6	(1)	0	5	0	1	(7)	(6)	**(1)**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business and Industry Loans	0	93	(34)	0	59	0	3	(168)	(165)	**(106)**
Water and Environmental Loans	0	0	0	0	0	0	0	0	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ 1**	**$ 957**	**$ (922)**	**$ 0**	**$ 36**	**$ 0**	**$ 36**	**$ 519**	**$ 555**	**$ 591**
FY 2013										
Housing Loans	$ 1	$ 786	$ (834)	$ 0	$ (47)	$ 0	$ 39	$ 603	$ 642	**$ 595**
Community Facility Loans	0	7	(1)	0	6	0	(2)	(4)	(6)	**0**
Electric Loans	0	0	0	0	0	0	0	0	0	**0**
Business and Industry Loans	0	80	(30)	0	50	0	4	(65)	(61)	**(11)**
Water and Environmental Loans	0	0	0	0	0	0	0	0	0	**0**
Total Subsidy Expense, Guaranteed Loans	**$ 1**	**$ 873**	**$ (865)**	**$ 0**	**$ 9**	**$ 0**	**$ 41**	**$ 534**	**$ 575**	**$ 584**

NOTE 5: Continued

Guaranteed Loans Disbursed

Guaranteed loan volume face value decreased from $23.4 billion in FY 2013 to $19.9 billion in FY 2014. The housing loan program experienced the largest decrease.

TABLE 8: GUARANTEED LOANS DISBURSED (POST 1991)

	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
FY 2014		
Housing Loans	$ 18,979	$ 17,081
Community Facility Loans	109	96
Business and Industry Loans	830	643
Water and Environmental Loans	22	19
Total Guaranteed Loans Disbursed	**$ 19,940**	**$ 17,839**
FY 2013		
Housing Loans	$ 22,504	$ 20,254
Community Facility Loans	142	125
Business and Industry Loans	792	608
Water and Environmental Loans	1	0
Total Guaranteed Loans Disbursed	**$ 23,439**	**$ 20,987**

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 2014 cohorts. 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 2014	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Section 502 Single Family Housing	0.00	4.58	-4.72	0.00	-0.14
Section 538 Multi-Family Housing	0.00	7.93	-8.12	0.00	-0.19
Community Facilities	0.00	5.85	-0.88	0.00	4.97
Business and Industry	0.00	11.23	-4.23	-0.01	6.99
Water and Environmental	0.00	1.55	-0.85	0.01	0.71
Renewable Energy	0.00	28.60	-1.17	0.00	27.43
Biorefinery (Section 9003 Loan Guarantees)	0.00	43.01	-3.94	2.36	41.43

NOTE 5: Continued

ANALYSIS OF GUARANTEED LOANS

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

SINGLE FAMILY HOUSING PROGRAMS
Two cohorts in the Guaranteed Housing Programs contributed to an overall upward reestimate of $726 million. The Section 502-Purchase Program comprises loan guarantees for the purchase of single-family homes endorsed during FY 1992 through FY 2010, and the Section 502-Blended Program comprises loan guarantees for the purchase and refinance of single-family homes endorsed during FY 2011 through FY 2014.

The Single Family Housing Section 502–Purchase Program had significant net upward reestimate of $810 million. The main causes for the upward reestimate were the increase in the forecasted defaults and the increase of projected losses attributed to a backlog of unprocessed claims for losses on guaranteed loans, which are expected to be paid in FY 2015.

The Single Family Housing Section 502–Blended Program had net downward reestimate of $72 million. The liability for FY 2011 loan guarantees was adjusted upward by $138 million due to changes made to forecasted losses and the inclusion of the backlog of losses. FY 2012-2014 had a downward adjustment of $209 million due to actual losses that were lower than forecasted losses. Actual losses were lower than forecasted as a result of higher credit requirements for borrowers implemented by the Agency following the housing crisis.

GUARANTEED BUSINESS AND INDUSTRY PROGRAMS
The Guaranteed Business and Industry Program had an overall downward reestimate of $122 million. The majority of the downward reestimate falls within cohort years 2009 through 2013, which accounts for $120 million of the overall downward reestimate. The cohorts have the greatest changes due to: (1) actual loss settlement payments being lower than projected; and (2) actual default prepayments being lower than projected.

NOTE 5: Continued

ADMINISTRATIVE EXPENSES

Consistent with the Federal Credit Reform Act of 1990, as amended, subsidy cash flows exclude direct federal administrative expenses. Administrative expenses are shown in **Table 10**.

TABLE 10: ADMINISTRATIVE EXPENSES

	FY 2014	FY 2013
Direct Loan Programs		
Total	**$ 162**	**$ 174**
Guaranteed Loan Programs		
Total	**$ 373**	**$ 409**

NOTE 6: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

CLASSES	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life[5]	Method of Depreciation[6]	Capitalization Threshold
FY 2014						
Personal Property						
Equipment	$ 3	$ 1	$ 2	5-20	SL	$ 25,000
Internal Use Software	163	124	39	5-8	SL	$ 100,000
Internal Use Software in Development	2	0	2	2-15	SL	$ 100,000
Total	**$ 168**	**$ 125**	**$ 43**			
FY 2013						
Personal Property						
Equipment	$ 1	$ 1	$ 0	5-20	SL	$ 25,000
Internal Use Software	153	111	42	5-8	SL	$ 100,000
Internal Use Software in Development	4	0	4	2-15	SL	$ 100,000
Total	**$ 158**	**$ 112**	**$ 46**			

NOTE 7: OTHER ASSETS

	FY 2014	FY 2013
Intragovernmental		
Advances to Others	$ 0	$ 0
Other Assets	0	0
Total Intragovernmental	**0**	**0**
With the Public		
Investment in Loan Asset Sale Trust[7]	35	35
Other	2	2
Total Other Assets – Non-Governmental	**37**	**37**
Total Other Assets	**$ 37**	**$ 37**

[5] Range of Service Life

[6] SL - Straight Line

[7] 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 8: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2014	FY 2013
Intragovernmental		
Unfunded Federal Employees Compensation Act (FECA) Liability	$ 6	$ 7
Total Intragovernmental	**6**	**7**
With the Public		
Federal Employee and Veteran Benefits	38	40
Unfunded Annual Leave	33	32
Contingent Liability	65	77
Total Liabilities Not Covered by Budgetary Resources[8]	136	156
Total Liabilities Covered by Budgetary Resources	106,799	104,812
Total Liabilities	**$ 106,941**	**$ 104,968**

NOTE 9: DEBT

	Beginning Balance	Net Borrowing	Ending Balance
FY 2014			
Intragovernmental Debt			
Debt to Treasury	$ 48,734	$ 171	$ 48,905
Debt to the Federal Financing Bank (FFB)	40,660	2,088	42,748
Total Intragovernmental Debt	89,394	2,259	91,653
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 89,394**	**$ 2,259**	**$ 91,653**
FY 2013			
Intragovernmental Debt			
Debt to Treasury	$ 45,777	$ 2,957	$ 48,734
Debt to the Federal Financing Bank (FFB)	38,092	2,568	40,660
Total Intragovernmental Debt	83,869	5,525	89,394
Agency Debt			
Held by the Public	0	0	0
Notes Payable	0	0	0
Total Agency Debt	0	0	0
Total Debt	**$ 83,869**	**$ 5,525**	**$ 89,394**

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

NOTE 9: Continued

		FY 2014		FY 2013
Classification of Debt				
Intragovernmental Debt	$	91,653	$	89,394
Debt Held by the Public		0		0
Total Debt	**$**	**91,653**	**$**	**89,394**

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 2014		FY 2013
Interest Payable, Federal				
Federal Financing Bank	$	23	$	22
Total	**$**	**23**	**$**	**22**

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 2014		FY 2013
Interest Expense, Federal				
Federal Financing Bank	$	1,592	$	1,530
Treasury		2,255		2,270
Total	**$**	**3,847**	**$**	**3,800**

NOTE 10: OTHER LIABILITIES

	Non-Current	Current	Total
FY 2014			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 3	$ 3
Employer Contributions & Payroll Taxes Payable	0	3	3
Unfunded FECA Liability	3	3	6
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**3**	**8**	**11**
Other Accrued Liabilities	0	45	45
Accrued Funded Payroll & Leave	0	10	10
Unfunded Annual Leave	0	33	33
Liability for Advances & Prepayments	0	(11)	(11)
Liability for Deposit Fund & Suspense Accounts	0	(3)	(3)
Contingent Liabilities	0	65	65
Other Liabilities	23	0	23
Total Other Liabilities	**$ 26**	**$ 147**	**$ 173**
FY 2013			
Intragovernmental			
Other Accrued Liabilities	$ 0	$ 15	$ 15
Employer Contributions & Payroll Taxes Payable	0	2	2
Unfunded FECA Liability	4	3	7
Liability for Deposit Fund & Suspense Accounts	0	(1)	(1)
Other Liabilities	0	0	0
Total Intragovernmental Debt	**4**	**19**	**23**
Other Accrued Liabilities	0	57	57
Accrued Funded Payroll & Leave	0	8	8
Unfunded Annual Leave	0	32	32
Liability for Advances & Prepayments	0	(10)	(10)
Liability for Deposit Fund & Suspense Accounts	0	(3)	(3)
Contingent Liabilities	0	77	77
Other Liabilities	23	0	23
Total Other Liabilities	**$ 27**	**$ 180**	**$ 207**

These liabilities are or will be covered by Budgetary Resources.

Analysis performed by the OCFO resulted in a change between the classification of current versus noncurrent on Unfunded FECA Liability.

Other Liabilities associated with Loan Prepayments that were classified as Other Liabilities in FY 2013 and prior will be shown as a separate line item titled Liability for Advances & Prepayments beginning in the FY 2014 financial statements.

NOTE 11: COMMITMENTS AND CONTINGENCIES

A. Commitments

Rural Development has commitments under cancelable leases for office space. GSA leases the majority of buildings in which Rural Development operates. GSA charges rent which is intended to approximate commercial rental rates.

As of September 30, 2014 and 2013, there were approximately $5.3 billion and $5.2 billion in commitments to extend loan guarantees, respectively.

B. Contingencies

The Rural Development mission area is subject to various claims and contingencies related to lawsuits. Rural Development does not accrue amounts in the financial statements for claims where the amount or probability of judgment is uncertain.

The following contingency-related lawsuits are reportable for the fiscal year ending on September 30, 2014.

Multiple breach of contract cases regarding Housing Section 515 loan prepayments have been deemed probable in FY 2014. Determination has been made by the Office of General Counsel that it is probable that a $65 million unfavorable outcome could result. This amount has been accrued to the Financial Statements.

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

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

One breach of contract case regarding Rural Utilities Service was deemed reasonably possible in FY 2013 with no estimated potential loss determined. During FY 2014, the Office of the General Counsel determined that it is reasonably possible that a $10 million unfavorable outcome could result.

NOTE 12: SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Consolidated Total
FY 2014					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 773	$ 11	$ 874	$ 2,189	$ 3,847
Other	195	18	50	42	305
Total Intragovernmental Gross Cost	968	29	924	2,231	4,152
Less:					
Intragovernmental Earned Revenue (Note 13)	176	3	135	234	548
Intragovernmental Net Costs	**792**	**26**	**789**	**1,997**	**3,604**
Gross Costs with the Public:					
Grants	8	1,223	1,045	0	2,276
Loan Cost Subsidies	787	9	283	(49)	1,030
Other	202	28	59	451	740
Total Gross Costs with the Public	997	1,260	1,387	402	4,046
Less:					
Earned Revenues from the Public (Note 13)	684	8	769	2,186	3,647
Net Costs with the Public	**313**	**1,252**	**618**	**(1,784)**	**399**
Net Cost of Operations	**$ 1,105**	**$ 1,278**	**$ 1,407**	**$ 213**	**$ 4,003**
FY 2013					
Intragovernmental Gross Costs:					
Borrowing Interest Expense	$ 776	$ 11	$ 891	$ 2,122	$ 3,800
Other	211	18	55	21	305
Total Intragovernmental Gross Cost	987	29	946	2,143	4,105
Less:					
Intragovernmental Earned Revenue (Note 13)	155	5	144	236	540
Intragovernmental Net Costs	**832**	**24**	**802**	**1,907**	**3,565**
Gross Costs with the Public:					
Grants	12	1,190	1,515	0	2,717
Loan Cost Subsidies	945	31	(78)	235	1,133
Other	(3,591)	29	7	430	(3,125)
Total Gross Costs with the Public	(2,634)	1,250	1,444	665	725
Less:					
Earned Revenues from the Public (Note 13)	703	7	776	2,074	3,560
Net Costs with the Public	**(3,337)**	**1,243**	**668**	**(1,409)**	**(2,835)**
Net Cost of Operations	**$ (2,505)**	**$ 1,267**	**$ 1,470**	**$ 498**	**$ 730**

NOTE 12: Continued

Other Disclosures

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

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

NOTE 13: EARNED REVENUES

	Mortgage Credit	Housing Assistance	Area & Regional Development	Energy Supply & Conservation	Total
FY 2014					
Intragovernmental					
Interest Revenue from Treasury	$ 172	$ 3	$ 134	$ 234	$ 543
Other	4	0	1	0	5
Total Intragovernmental Earned Revenue	**176**	**3**	**135**	**234**	**548**
With the Public					
Interest Revenue	681	8	753	2,186	3,628
Other	3	0	16	0	19
Total Earned Revenues from the Public	**684**	**8**	**769**	**2,186**	**3,647**
Total Earned Revenues	**$ 860**	**$ 11**	**$ 904**	**$ 2,420**	**$ 4,195**
FY 2013					
Intragovernmental					
Interest Revenue from Treasury	$ 148	$ 4	$ 142	$ 235	$ 529
Other	7	1	2	1	11
Total Intragovernmental Earned Revenue	**155**	**5**	**144**	**236**	**540**
With the Public					
Interest Revenue	702	7	761	2,074	3,544
Other	1	0	15	0	16
Total Earned Revenues from the Public	**703**	**7**	**776**	**2,074**	**3,560**
Total Earned Revenues	**$ 858**	**$ 12**	**$ 920**	**$ 2,310**	**$ 4,100**

OTHER DISCLOSURES

A. Credit Reform

The amount of subsidy expense on direct loans made after 1991 equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities within a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both Federal and non-Federal sources. For a further discussion of present value refer to **Notes 1E, 1H,** and **5**.

B. Exchange Transactions with Non-Federal Sources

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

NOTE 13: Continued

Rural Housing Programs

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

Rural Business-Cooperative Program

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

Rural Utilities Program

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

C. Exchange Transactions with Federal Sources

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

NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

	Direct	Reimbursable	Total
FY 2014			
Category A-Apportionment by Fiscal Quarter	$ 193	$ 464	$ 657
Category B-Apportionment by Special Activities	18,768	0	18,768
Total Obligations Incurred	**$ 18,961**	**$ 464**	**$ 19,425**
FY 2013			
Category A-Apportionment by Fiscal Quarter	$ 184	$ 433	$ 617
Category B-Apportionment by Special Activities	20,396	1	20,397
Total Obligations Incurred	**$ 20,580**	**$ 434**	**$ 21,014**

NOTE 15: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

As of September 30, 2014 and 2013, the amount of available borrowing authority was $20.6 billion and $22.8 billion, respectively.

NOTE 16: TERMS OF BORROWING AUTHORITY USED

Requirements for Repayments of Borrowings

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

Financing Sources for Repayments of Borrowings

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

Other Terms of Borrowing Authority Used

In general, borrowings are for periods between one year and approximately fifty years depending upon the loan program/cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect during the period of loan disbursements. Rural Development disburses some individual loans over several quarters or years. Consequently, several interest rates can be applicable to an individual loan. Thus, a single weighted average interest rate is maintained for each cohort and is adjusted each year until the disbursements for the cohort have been made. Each year, the current average annual interest rate is weighted by current year disbursements and merged with prior year weighted averages to calculate a new weighted average.

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

NOTE 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 2016 Budget of the United States Government, with the "Actual" columns completed for FY 2014, 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 2015. The Budget will be available from the Government Printing Office.

The 2015 Budget of the United States Government, with the "Actual" columns completed for FY 2013, was published in March of 2014 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 2013, 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 2013, 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

<table>
<tr><th colspan="7">Reconciliation Between FY 2013 Combined Statement of Budgetary Resources and the President's Budget</th></tr>
<tr><th>Applicable Line from SBR</th><th>Amount from SBR</th><th>Applicable Line from President's Budget</th><th>Amount from President's Budget</th><th colspan="2">Legitimate Differences</th><th>Reporting Errors</th></tr>
<tr><td rowspan="4">Total Budgetary Resources (Line 1910)</td><td rowspan="4">$34,261</td><td rowspan="4">Total Budgetary Resources Available for Obligation</td><td rowspan="4">$33,751</td><td><b>$</td><td>510</td><td rowspan="4">None</td></tr>
<tr><td>E</td><td>500</td></tr>
<tr><td>R</td><td>5</td></tr>
<tr><td>A</td><td>5</td></tr>
<tr><td rowspan="4">Obligations Incurred (Line 2190)</td><td rowspan="4">$21,014</td><td rowspan="4">Total New Obligations</td><td rowspan="4">$20,999</td><td><b>$</td><td>15</td><td rowspan="4">None</td></tr>
<tr><td>E</td><td>5</td></tr>
<tr><td>R</td><td>4</td></tr>
<tr><td>A</td><td>6</td></tr>
<tr><td rowspan="2">Distributed Offsetting Receipts (Line 4200)</td><td rowspan="2">($1,059)</td><td rowspan="2">Treasury Combined Statement (Receipts by Department)</td><td rowspan="2">($1,057)</td><td><b>$</td><td>(2)</td><td rowspan="2">None</td></tr>
<tr><td>R</td><td>(2)</td></tr>
<tr><td rowspan="3">Total Net Outlays (Line 4190)</td><td rowspan="3">$7,389</td><td rowspan="3">Outlays</td><td rowspan="3">$7,387</td><td><b>$</td><td>2</td><td rowspan="3">None</td></tr>
<tr><td>R</td><td>1</td></tr>
<tr><td>A</td><td>1</td></tr>
</table>

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

NOTE 20: UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2014 and 2013, the amount of undelivered orders was $26.7 billion and $29.1 billion, respectively. The remaining amount as presented on the financial statement line is attributed to delivered orders.

NOTE 21: ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

	FY 2014 Obligated	FY 2013 Obligated
Beginning Balances	$ 28,503	$ 31,097
Adjustments	0	0
Beginning Balances, as adjusted	**$ 28,503**	**$ 31,097**

NOTE 22: INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2014	FY 2013
Sources of Collections		
Natural Resources Conservation Service Loan Collections	$ 2	$ 2
Total Revenue Collected	**2**	**2**
Disposition of Collections		
Amount Transferred to Treasury Receipt Accounts	2	2
Total Disposition of Revenue	**2**	**2**
Net Custodial Activity	**$ 0**	**$ 0**

NOTE 23: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2014	FY 2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 19,425	$ 21,014
Less: Spending Authority from Offsetting Collections and Recoveries	16,570	16,219
Obligations Net Offsetting Collections and Recoveries	2,855	4,795
Less: Offsetting Receipts	1,381	1,059
Net Obligations	1,474	3,736
Other Resources		
Imputed Financing from Costs Absorbed by Others	109	111
Other	(1,126)	(4,991)
Net Other Resources Used to Finance Activities	(1,017)	(4,880)
Total Resources Used to Finance Activities	**457**	**(1,144)**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	2,387	2,370
Resources that Fund Expenses Recognized in Prior Periods	(3,293)	(2,939)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	14,854	14,858
Change in Unfilled Customer Orders	(98)	(156)
Other	1,381	1,059
Resources that Finance the Acquisition of Assets	(14,670)	(16,317)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,126	4,991
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**1,687**	**3,866**
Total Resources Used to Finance the Net Cost of Operations	**2,144**	**2,722**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	1	(2)
Upward/Downward Reestimates of Credit Subsidy Expense	1,869	1,890
Other	(13)	0
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	1,857	1,888
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	13	13
Revaluation of Assets or Liabilities	21	0
Other Components Not Requiring or Generating Resources:		
Bad Debt Expense	(13)	(3,877)
Other	(19)	(16)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	2	(3,880)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**1,859**	**(1,992)**
Net Cost of Operations	**$ 4,003**	**$ 730**

NOTE 24: FIDUCIARY ACTIVITY

Refer to **Note 1C** regarding the implementation of SFFAS No. 31, Accounting for Fiduciary Activity.

Fiduciary activities are the collection or receipt, and management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have ownership interest that the Federal Government must uphold.

Fiduciary assets are not assets of the Agency. Rural Development does not recognize fiduciary assets on the Balance Sheet.

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, 2014 and 2013

	FY 2014	FY 2013
Fiduciary Net Assets, beginning of year	$ **101**	$ **107**
Contributions	411	389
Disbursements	407	395
Increase/Decrease in Fiduciary Fund Balances	**4**	**(6)**
Fiduciary Net Assets, end of year	$ **105**	$ **101**

Schedule of Fiduciary Net Assets for the Years Ended September 30, 2014 and 2013

	FY 2014	FY 2013
Cash and Cash Equivalents:		
Escrow Funds held at Treasury	$ 11	$ 5
Investments – Short Term	94	96
Investments – Long Term	0	0
Total Fiduciary Net Assets	$ **105**	$ **101**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs	Rural Community Advancement Programs
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 328	$ 1,666	$ 252	$ 1,010
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	328	1,666	252	1,010
Recoveries of Prior Year Unpaid Obligations	106	326	136	292
Other Changes in Unobligated Balance	(17)	(1,282)	(37)	(636)
Unobligated Balance from Prior Year Budget Authority, Net	417	710	351	666
Appropriations	895	0	817	0
Borrowing Authority (Notes 15 and 16)	0	2,257	0	2,494
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	110	1,176	17	2,124
Total Budgetary Resources	**1,422**	**4,143**	**1,185**	**5,284**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	966	3,216	857	3,618
Unobligated Balance, End of Year:				
Apportioned	311	524	225	1,273
Exempt From Apportionment	0	0	0	0
Unapportioned	145	403	103	393
Total Unobligated Balance, End of Year	456	927	328	1,666
Total Budgetary Resources	**1,422**	**4,143**	**1,185**	**5,284**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	2,473	6,080	2,983	6,283
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	966	3,216	857	3,618
Outlays	(919)	(2,935)	(1,231)	(3,529)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(106)	(326)	(136)	(292)
Unpaid Obligations, End of Year	2,414	6,035	2,473	6,080
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(374)	0	(455)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	88	0	81
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(286)	0	(374)
Memorandum Entries:				
Obligated Balance, Start of Year	2,473	5,706	2,983	5,828
Obligated Balance, End of Year	2,414	5,749	2,473	5,706
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,005	3,433	834	4,618
Actual Offsetting Collections	(172)	(1,923)	(203)	(2,593)
Change in Uncollected Customer Payments From Federal Sources	0	88	0	81
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**833**	**1,598**	**631**	**2,106**
Outlays, Gross	919	2,935	1,231	3,529
Actual Offsetting Collections	(172)	(1,923)	(203)	(2,593)
Outlays, Net	747	1,012	1,028	936
Distributed offsetting Receipts	0	(440)	0	(362)
Agency Outlays, Net	**$ 747**	**$ 572**	**$ 1,028**	**$ 574**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds	Rural Electrification/ Telecommunication Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 4,274	$ 1,714	$ 4,821	$ 501
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	4,274	1,714	4,821	501
Recoveries of Prior Year Unpaid Obligations	0	673	0	382
Other Changes in Unobligated Balance	(267)	(1,597)	(1,016)	(808)
Unobligated Balance from Prior Year Budget Authority, Net	4,007	790	3,805	75
Appropriations	1,355	21	1,242	0
Borrowing Authority (Notes 15 and 16)	0	3,544	0	5,805
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	2,550	3,741	1,709	3,651
Total Budgetary Resources	**7,912**	**8,096**	**6,756**	**9,531**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	2,824	5,647	2,482	7,817
Unobligated Balance, End of Year:				
Apportioned	3,081	2,449	1,888	1,698
Exempt From Apportionment	0	0	0	0
Unapportioned	2,007	0	2,386	16
Total Unobligated Balance, End of Year	5,088	2,449	4,274	1,714
Total Budgetary Resources	**7,912**	**8,096**	**6,756**	**9,531**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	17	17,053	54	17,802
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	2,824	5,647	2,482	7,817
Outlays	(2,838)	(6,881)	(2,519)	(8,184)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(673)	0	(382)
Unpaid Obligations, End of Year	3	15,146	17	17,053
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(3)	0	(4)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	1	0	1
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(2)	0	(3)
Memorandum Entries:				
Obligated Balance, Start of Year	17	17,050	54	17,798
Obligated Balance, End of Year	3	15,144	17	17,050
Budget Authority and Outlays, Net:				
Budget Authority, Gross	3,905	7,306	2,951	9,456
Actual Offsetting Collections	(3,270)	(5,069)	(2,586)	(5,036)
Change in Uncollected Customer Payments From Federal Sources	0	1	0	1
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**635**	**2,238**	**365**	**4,421**
Outlays, Gross	2,838	6,881	2,519	8,184
Actual Offsetting Collections	(3,270)	(5,069)	(2,586)	(5,036)
Outlays, Net	(432)	1,812	(67)	3,148
Distributed offsetting Receipts	0	(610)	0	(527)
Agency Outlays, Net	**$ (432)**	**$ 1,202**	**$ (67)**	**$ 2,621**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds	Rural Telephone Bank Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 4	$ 44	$ 3	$ 3
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	4	44	3	3
Recoveries of Prior Year Unpaid Obligations	0	7	0	27
Other Changes in Unobligated Balance	0	(51)	1	(30)
Unobligated Balance from Prior Year Budget Authority, Net	4	0	4	0
Appropriations	6	0	4	0
Borrowing Authority (Notes 15 and 16)	0	1	0	2
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	42	0	60
Total Budgetary Resources	**10**	**43**	**8**	**62**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	7	16	4	18
Unobligated Balance, End of Year:				
Apportioned	0	27	0	44
Exempt From Apportionment	0	0	0	0
Unapportioned	3	0	4	0
Total Unobligated Balance, End of Year	3	27	4	44
Total Budgetary Resources	**10**	**43**	**8**	**62**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1	70	1	99
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	7	16	4	18
Outlays	(7)	(16)	(4)	(20)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	0	(7)	0	(27)
Unpaid Obligations, End of Year	1	63	1	70
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(1)	0	(2)
Adjustments to Uncollected Payments, Federal Sources, Start Of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	1
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(1)	0	(1)
Memorandum Entries:				
Obligated Balance, Start of Year	1	69	1	97
Obligated Balance, End of Year	1	62	1	69
Budget Authority and Outlays, Net:				
Budget Authority, Gross	6	43	4	62
Actual Offsetting Collections	0	(61)	0	(75)
Change in Uncollected Customer Payments From Federal Sources	0	0	0	1
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**6**	**(18)**	**4**	**(12)**
Outlays, Gross	7	16	4	20
Actual Offsetting Collections	0	(61)	0	(75)
Outlays, Net	7	(45)	4	(55)
Distributed offsetting Receipts	0	(1)	0	(1)
Agency Outlays, Net	**$ 7**	**$ (46)**	**$ 4**	**$ (56)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds	Rural Housing Funds
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 143	$ 3,947	$ 147	$ 2,473
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	143	3,947	147	2,473
Recoveries of Prior Year Unpaid Obligations	30	83	15	48
Other Changes in Unobligated Balance	(69)	(982)	(63)	(154)
Unobligated Balance from Prior Year Budget Authority, Net	104	3,048	99	2,367
Appropriations	1,516	0	1,611	0
Borrowing Authority (Notes 15 and 16)	0	1,068	0	1,035
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	76	2,897	66	3,040
Total Budgetary Resources	**1,696**	**7,013**	**1,776**	**6,442**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	1,554	2,541	1,633	2,495
Unobligated Balance, End of Year:				
Apportioned	15	1,842	52	979
Exempt From Apportionment	0	0	0	0
Unapportioned	127	2,630	91	2,968
Total Unobligated Balance, End of Year	142	4,472	143	3,947
Total Budgetary Resources	**1,696**	**7,013**	**1,776**	**6,442**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	160	549	188	488
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	1,554	2,541	1,633	2,495
Outlays	(1,547)	(2,432)	(1,646)	(2,386)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(30)	(83)	(15)	(48)
Unpaid Obligations, End of Year	137	575	160	549
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(92)	0	(114)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal sources	0	15	0	22
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal sources, End of Year	0	(77)	0	(92)
Memorandum Entries:				
Obligated Balance, Start of Year	160	457	188	374
Obligated Balance, End of Year	137	498	160	457
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,592	3,965	1,677	4,075
Actual Offsetting Collections	(551)	(3,143)	(632)	(3,230)
Change in Uncollected Customer Payments From Federal Sources	0	15	0	22
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1,041**	**837**	**1,045**	**867**
Outlays, Gross	1,547	2,432	1,646	2,386
Actual Offsetting Collections	(551)	(3,143)	(632)	(3,230)
Outlays, Net	996	(711)	1,014	(844)
Distributed offsetting Receipts	0	(222)	0	(105)
Agency Outlays, Net	**$ 996**	**$ (933)**	**$ 1,014**	**$ (949)**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs	Rental Assistance Programs
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 36	$ 0	$ 26	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	36	0	26	0
Recoveries of Prior Year Unpaid Obligations	4	0	6	0
Other Changes in Unobligated Balance	0	0	0	0
Unobligated Balance from Prior Year Budget Authority, Net	40	0	32	0
Appropriations	1,159	0	885	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	1	0	1	0
Total Budgetary Resources	**1,200**	**0**	**918**	**0**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	1,151	0	882	0
Unobligated Balance, End of Year:				
Apportioned	42	0	32	0
Exempt From Apportionment	0	0	0	0
Unapportioned	7	0	4	0
Total Unobligated Balance, End of Year	49	0	36	0
Total Budgetary Resources	**1,200**	**0**	**918**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	720	0	1,019	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	1,151	0	882	0
Outlays	(1,182)	0	(1,175)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(4)	0	(6)	0
Unpaid Obligations, End of Year	685	0	720	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	0	0	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	0	0	0
Memorandum Entries:				
Obligated Balance, Start of Year	720	0	1,019	0
Obligated Balance, End of Year	685	0	720	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	1,160	0	886	0
Actual Offsetting Collections	(1)	0	(1)	0
Change in Uncollected Customer Payments From Federal Sources	0	0	0	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**1,159**	**0**	**885**	**0**
Outlays, Gross	1,182	0	1,175	0
Actual Offsetting Collections	(1)	0	(1)	0
Outlays, Net	1,181	0	1,174	0
Distributed offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 1,181**	**$ 0**	**$ 1,174**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants	Rural Housing Grants
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 13	$ 22	$ 16	$ 19
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	13	22	16	19
Recoveries of Prior Year Unpaid Obligations	3	5	1	18
Other Changes in Unobligated Balance	0	(27)	0	(35)
Unobligated Balance from Prior Year Budget Authority, Net	16	0	17	2
Appropriations	57	0	58	0
Borrowing Authority (Notes 15 and 16)	0	79	0	16
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	0	4	0	40
Total Budgetary Resources	**73**	**83**	**75**	**58**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	51	83	62	36
Unobligated Balance, End of Year:				
Apportioned	22	0	13	22
Exempt From Apportionment	0	0	0	0
Unapportioned	0	0	0	0
Total Unobligated Balance, End of Year	22	0	13	22
Total Budgetary Resources	**73**	**83**	**75**	**58**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	81	72	87	131
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	51	83	62	36
Outlays	(62)	(48)	(67)	(77)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(3)	(5)	(1)	(18)
Unpaid Obligations, End of Year	67	102	81	72
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	(26)	0	(33)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	0	(2)	0	7
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	0	(28)	0	(26)
Memorandum Entries:				
Obligated Balance, Start of Year	81	46	87	98
Obligated Balance, End of Year	67	74	81	46
Budget Authority and Outlays, Net:				
Budget Authority, Gross	57	83	58	56
Actual Offsetting Collections	0	(34)	0	(46)
Change in Uncollected Customer Payments From Federal Sources	0	(2)	0	7
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**57**	**47**	**58**	**17**
Outlays, Gross	62	48	67	77
Actual Offsetting Collections	0	(34)	0	(46)
Outlays, Net	62	14	67	31
Distributed offsetting Receipts	0	(14)	0	(4)
Agency Outlays, Net	**$ 62**	**$ 0**	**$ 67**	**$ 27**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Salaries & Expense	Salaries & Expense	Salaries & Expense	Salaries & Expense
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 30	$ 0	$ 15	$ 0
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	30	0	15	0
Recoveries of Prior Year Unpaid Obligations	13	0	6	0
Other Changes in Unobligated Balance	(3)	0	12	0
Unobligated Balance from Prior Year Budget Authority, Net	40	0	33	0
Appropriations	204	0	192	0
Borrowing Authority (Notes 15 and 16)	0	0	0	0
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	464	0	433	0
Total Budgetary Resources	**708**	**0**	**658**	**0**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	674	0	628	0
Unobligated Balance, End of Year:				
Apportioned	17	0	18	0
Exempt From Apportionment	0	0	0	0
Unapportioned	17	0	12	0
Total Unobligated Balance, End of Year	34	0	30	0
Total Budgetary Resources	**708**	**0**	**658**	**0**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	106	0	129	0
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	674	0	628	0
Outlays	(621)	0	(645)	0
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(13)	0	(6)	0
Unpaid Obligations, End of Year	146	0	106	0
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(7)	0	(6)	0
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	(4)	0	(1)	0
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources, End of Year	(11)	0	(7)	0
Memorandum Entries:				
Obligated Balance, Start of Year	99	0	123	0
Obligated Balance, End of Year	135	0	99	0
Budget Authority and Outlays, Net:				
Budget Authority, Gross	668	0	625	0
Actual Offsetting Collections	(460)	0	(432)	0
Change in Uncollected Customer Payments From Federal Sources	(4)	0	(1)	0
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**204**	**0**	**192**	**0**
Outlays, Gross	621	0	645	0
Actual Offsetting Collections	(460)	0	(432)	0
Outlays, Net	161	0	213	0
Distributed offsetting Receipts	0	0	0	0
Agency Outlays, Net	**$ 161**	**$ 0**	**$ 213**	**$ 0**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary Credit Program Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Program Financing Accounts
	Other	Other	Other	Other
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$ 655	$ 371	$ 640	$ 281
Adjustment to Unobligated Balance Brought Forward, October 1	0	0	0	0
Unobligated Balance Brought Forward, October 1, as Adjusted	655	371	640	281
Recoveries of Prior Year Unpaid Obligations	53	41	100	47
Other Changes in Unobligated Balance	(22)	(194)	71	(48)
Unobligated Balance from Prior Year Budget Authority, Net	686	218	811	280
Appropriations	230	0	(137)	0
Borrowing Authority (Notes 15 and 16)	0	173	0	168
Contract Authority	0	0	0	0
Spending Authority from Offsetting Collections	198	391	184	202
Total Budgetary Resources	**1,114**	**782**	**858**	**650**
Status of Budgetary Resources:				
Obligations Incurred (Note 14)	410	285	203	279
Unobligated Balance, End of Year:				
Apportioned	348	388	240	197
Exempt From Apportionment	0	0	0	0
Unapportioned	356	109	415	174
Total Unobligated Balance, End of Year	704	497	655	371
Total Budgetary Resources	**1,114**	**782**	**858**	**650**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	1,165	719	1,831	922
Adjustments to Unpaid Obligations, Start of Year	0	0	0	0
Obligations Incurred	410	285	203	279
Outlays	(615)	(399)	(769)	(435)
Actual Transfers, Unpaid Obligations	0	0	0	0
Recoveries of Prior Year Unpaid Obligations	(53)	(41)	(100)	(47)
Unpaid Obligations, End of Year	907	564	1,165	719
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(13)	(247)	(14)	(292)
Adjustments to Uncollected Payments, Federal Sources, Start of Year	0	0	0	0
Change in Uncollected Payments, Federal Sources	12	0	1	45
Actual Transfers, Uncollected Payments, Federal Sources	0	0	0	0
Uncollected Payments, Federal Sources End of Year	(1)	(247)	(13)	(247)
Memorandum Entries:				
Obligated Balance, Start of Year	1,152	472	1,817	630
Obligated Balance, End of Year	906	317	1,152	472
Budget Authority and Outlays, Net:				
Budget Authority, Gross	428	564	47	370
Actual Offsetting Collections	(215)	(437)	(187)	(277)
Change in Uncollected Customer Payments From Federal Sources	12	0	1	45
Anticipated Offsetting Collections	0	0	0	0
Budget Authority, Net	**225**	**127**	**(139)**	**138**
Outlays, Gross	615	399	769	435
Actual Offsetting Collections	(215)	(437)	(187)	(277)
Outlays, Net	400	(38)	582	158
Distributed offsetting Receipts	0	(94)	0	(60)
Agency Outlays, Net	**$ 400**	**$ (132)**	**$ 582**	**$ 98**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary		2014 Non-Budgetary Credit Program Financing Accounts		2013 Budgetary		2013 Non-Budgetary Credit Program Financing Accounts
		Total		Total		Total	Total
Budgetary Resources:							
Unobligated Balance Brought Forward, October 1	$	5,483	$	7,764	$	5,920	$ 4,287
Adjustment to Unobligated Balance Brought Forward, October 1		0		0		0	0
Unobligated Balance Brought Forward, October 1, as Adjusted		5,483		7,764		5,920	4,287
Recoveries of Prior Year Unpaid Obligations		209		1,135		264	814
Other Changes in Unobligated Balance		(378)		(4,133)		(1,032)	(1,711)
Unobligated Balance from Prior Year Budget Authority, Net		5,314		4,766		5,152	3,390
Appropriations		5,422		21		4,672	0
Borrowing Authority (Notes 15 and 16)		0		7,122		0	9,520
Contract Authority		0		0		0	0
Spending Authority from Offsetting Collections		3,399		8,251		2,410	9,117
Total Budgetary Resources		**14,135**		**20,160**		**12,234**	**22,027**
Status of Budgetary Resources:							
Obligations Incurred (Note 14)		7,637		11,788		6,751	14,263
Unobligated Balance, End of Year:							
Apportioned		3,836		5,230		2,468	4,213
Exempt From Apportionment		0		0		0	0
Unapportioned		2,662		3,142		3,015	3,551
Total Unobligated Balance, End of Year		6,498		8,372		5,483	7,764
Total Budgetary Resources		**14,135**		**20,160**		**12,234**	**22,027**
Change in Obligated Balance:							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1		4,723		24,543		6,292	25,725
Adjustments to Unpaid Obligations, Start of Year		0		0		0	0
Obligations Incurred		7,637		11,788		6,751	14,263
Outlays		(7,791)		(12,711)		(8,056)	(14,631)
Actual Transfers, Unpaid Obligations		0		0		0	0
Recoveries of Prior Year Unpaid Obligations		(209)		(1,135)		(264)	(814)
Unpaid Obligations, End of Year		4,360		22,485		4,723	24,543
Uncollected Payments:							
Uncollected Payments, Federal Sources, Brought Forward, October 1		(20)		(743)		(20)	(900)
Adjustments to Uncollected Payments, Federal Sources, Start of Year		0		0		0	0
Change in Uncollected Payments, Federal Sources		8		102		0	157
Actual Transfers, Uncollected Payments, Federal Sources		0		0		0	0
Uncollected Payments, Federal Sources, End of Year		(12)		(641)		(20)	(743)
Memorandum Entries:							
Obligated Balance, Start of Year		4,703		23,800		6,272	24,825
Obligated Balance, End of Year		4,348		21,844		4,703	23,800
Budget Authority and Outlays, Net:							
Budget Authority, Gross		8,821		15,394		7,082	18,637
Actual Offsetting Collections		(4,669)		(10,667)		(4,041)	(11,257)
Change in Uncollected Customer Payments From Federal Sources		8		102		0	157
Anticipated Offsetting Collections		0		0		0	0
Budget Authority, Net		**4,160**		**4,829**		**3,041**	**7,537**
Outlays, Gross		7,791		12,711		8,056	14,631
Actual Offsetting Collections		(4,669)		(10,667)		(4,041)	(11,257)
Outlays, Net		3,122		2,044		4,015	3,374
Distributed offsetting Receipts		0		(1,381)		0	(1,059)
Agency Outlays, Net	**$**	**3,122**		**663**	**$**	**4,015**	**2,315**

OTHER INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary	2013 Budgetary	2013 Non-Budgetary
Schedule of Spending				
What Money is Available to Spend?				
Total Resources	$ 14,135	$ 20,160	$ 12,234	$ 22,027
Less Amount Available but Not Agreed to be Spent	3,836	5,230	2,468	4,213
Less Amount Not Available to be Spent	2,662	3,142	3,015	3,551
Total Amounts Agreed to be Spent	$ 7,637	$ 11,788	$ 6,751	$ 14,263
How Was the Money Spent/Issued?				
Category 11				
Full-time, Non-Wage-Board U.S.	$ 332	$ 0	$ 349	$ 0
Time-off Awards	1	0	2	0
Temporary Full-Appointments Non-Wage-Board U.S.	0	0	1	0
Part-Time Appointments Non-Wage-Board U.S.	2	0	2	0
Other Awards	1	0	1	0
Non-Wage Board Employees	2	0	2	0
Lump Sum Payment for Annual Leave-Permanent Appointments Non-Wage-Board Employees	2	0	3	0
Payroll Salary Accrued	2	0	(13)	0
Category 12				
Federal Employee Government Life Insurance-Agency Contribution	1	0	1	0
Federal Employee Health Benefits-Agency Contribution	36	0	37	0
Civil Service Retirement System 7% Coverage Code 1-Agency Contribution	3	0	4	0
Cost of Living Allowance	1	0	1	0
Office of Workers' Compensation Payment	3	0	3	0
Hospital Insurance Tax-Agency Contribution	5	0	5	0
Transitional Retirement Contribution-Civil Service	1	0	1	0
OPM Accrual Estimates	0	0	(3)	0
Transitional Old Age Survivor	1	0	1	0
FERS Regular Contributions	33	0	34	0
Full OASDI Contributions-FERS (K)	16	0	17	0
Thrift Savings Plan (TSP) Government Basic Contribution	3	0	3	0
TSP Government Matching Contribution	9	0	10	0
Payroll Benefits Estimates	0	0	(1)	0
Separation Incentive	0	0	3	0
Category 21				
Common Carrier-Domestic	2	0	1	0
Mileage Allowance-Domestic	1	0	1	0
Per Diem-Domestic	5	0	2	0
Other Travel - Domestic	1	0	0	0
Automobile Rental-Sedan and Station Wagon Rental General Service Administration	3	0	4	0
Category 22				
Postage, Common – USPS	2	0	0	0
Category 23				
Building Rental	0	0	1	0
Building Rental-General Services Administration	0	0	1	0
Building Rental Non-General Services Administration	16	0	19	0
Postage and Related Fees	1	0	0	0
Category 24				
Printing, Binding, Etc.	1	0	2	0
Category 25				
Other Services	735	1,989	658	1,940
Contractual Services Performed by Other Agencies	6	0	0	0
Training, Tuition, Fees, Etc.	2	0	1	0
Repair, Alteration, or Maintenance of Space (Interior)	8	0	1	0
Contractual Services-Other	4	0	4	0
Agreements	69	0	59	0
Other Agreements	19	0	19	0
Miscellaneous Services	3	0	2	0
Equipment Use Estimate	2	0	0	0

OTHER INFORMATION (Unaudited)

Amounts Presented in Millions

	2014 Budgetary	2014 Non-Budgetary	2013 Budgetary	2013 Non-Budgetary
Category 26				
Supplies-Energy Related	0	0	2	0
Supplies and Materials-General	2	0	1	0
Supplies and Materials-Office-Central Supply Stores	1	0	1	0
Category 31				
Equipment Estimate	1	0	0	0
Machinery and Equipment (Other) IT Software	0	0	(15)	0
Machinery and Equipment (Capitalized and Accountable) IT Hardware	0	0	1	0
Non-Capitalized Property Less than $5,000	0	0	17	0
Non-Capitalized Equipment	3	0	0	0
Equipment-Other ($5K-24, 999)	1	0	0	0
Machinery and Equipment (Capitalized) Non-PC	2	0	0	0
Category 33				
Investments and Loans	1,669	6,001	1,668	8,625
Category 41				
Grants, Subsidies, and Contributions	4,512	0	3,707	0
Category 42				
Lit Fee and Awards	1	0	0	0
Category 43				
Interest and Dividends	111	3,770	131	3,698
Category 94				
Modifications	0	28	0	0
Total Amounts Agreed To Be Spent	$ 7,637	$ 11,788	$ 6,751	$ 14,263
Who Did the Money Go To?				
Federal	1,935	4,885	2,920	4,949
Non-Federal	5,702	6,903	3,831	9,314
Total Amounts Agreed To Be Spent	$ 7,637	$ 11,788	$ 6,751	$ 14,263

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