# U.S. Department of Housing and Urban Development,

# Washington, DC

## Fiscal Years 2015 and 2014 (Restated) Consolidated Financial Statements Audit

**Office of Audit, Financial Audits Division**
**Washington, DC**

**Audit Report Number: 2016-FO-0004**
**November 23, 2015**

**To:** Joseph Hungate, Deputy Chief Financial Officer, F

//**signed**//

**From:** Thomas R. McEnanly, Director, Financial Audits Division, Washington DC, GAF

**Subject:** Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Consolidated Financial Statements Audit

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) independent auditor's report on HUD's consolidated financial statements and reports on internal controls over financial reporting and compliance with laws and regulations.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

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# Highlights

## What We Audited and Why

In accordance with the Chief Financial Officers Act of 1990, as amended, we are required to annually audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) and the stand alone financial statements of the Federal Housing Administration and the Government National Mortgage Administration (Ginnie Mae). Our objective was to express an opinion on the fairness of the financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. This report presents the results of our audit of fiscal years 2015 and 2014 (restated) HUD consolidated financial statements, including our report on HUD's internal control and test of compliance with applicable laws and regulations.

## What We Found

We expressed a disclaimer of opinion on HUD's fiscal years 2015 and 2014 (restated) consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters relate to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing community planning and development program funds, (2) $5.4 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that we could not audit because Ginnie Mae could not provide adequate support for us to test these asset balances, (3) $19.8 billion in Ginnie Mae's budgetary resources that we could not audit because of the inaccurate reporting from its budgetary system, and (4) improper accounting for HUD's assets resulting from advances made to public housing agencies and Indian Housing Block Grant grantees and loans receivable from the Emergency Homeowners' Loan Program. This audit report contains nine material weaknesses, eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. These weaknesses were due to an inability to establish a compliant control environment, implement adequate financial accounting systems, retain key financial management staff, and identify appropriate accounting principles and policies.

## What We Recommend

Our recommendations regarding each of the components' findings were made in audit report 2016-FO-0001, 2016-FO-0002, and 2016-FO-0003.

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U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

# Independent Auditor's Report[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

## Report on the Financial Statements

The Chief Financial Officers Act of 1990 (CFO Act) requires the U.S. Department of Housing and Urban Development (HUD) to prepare the accompanying consolidated balance sheets as of September 30, 2015 and 2014 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and Office of Management and Budget (OMB) Bulletin 15-02.

## Management's Responsibility for the Financial Statements

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

[1] This report is supplemented by three separate reports issued by the HUD Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been updated as needed for inclusion in the internal control and compliance with laws and regulations sections of the independent auditor's report. The supplemental reports are available on the HUD OIG Internet site at https://www.hudoig.gov and are entitled (1) Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2016-FO-0003, issued November 18, 2015), (2) Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014 (audit report 2016-FO-0002, issued November 16, 2015), and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated) (audit report 2016-FO-0001, issued November 13, 2015).

## Auditor's Responsibility

We are required by the CFO Act, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 15-02, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects, in conformity with accounting principles generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America, which require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## Basis for Disclaimer of Opinion

Our audit identified four areas in which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2015 and 2014 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined, in the aggregate, all four areas impacted multiple material financial statement line items and were material and pervasive to the fiscal years 2015 and 2014 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable.

> *Improper and unauditable budgetary accounting*. HUD continued to use budgetary accounting for the Office of Community Planning and Development (CPD) programs that was not performed in accordance with Federal generally accepted accounting principles (GAAP), which resulted in misstatements in HUD's combined statement of budgetary resources. In addition, the Government National Mortgage Association's (Ginnie Mae) budgetary accounting was not auditable during the fiscal year. Therefore, we could not assess whether the balances reported were reasonable.
>
> HUD used a cumulative and first-in first-out (FIFO) method[2] to disburse and commit CPD program funds that was not in accordance with GAAP for Federal grants. These methods

[2] The FASAB Handbook defines FIFO as a cost flow assumption; The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual (FAM) states that the use of "first-in, first-out" or other arbitrary means to liquidate obligations based on outlays is not generally acceptable (GAO-PCIE (U.S. Government Accountability Office-President's Council on Integrity and Efficiency) FAM, Internal Control Phase, Budget Control Objectives, page 395 F-3). In the context of HUD's use of this method, the first funds appropriated and allocated to the grantee

were used to determine the amount of uncommitted HOME Investment Partnerships Program grant funds that would be subject to reallocation and recapture under section 218(g) of the HOME Investment Partnership Act and to process disbursements for CPD formula programs, respectively. The effects of these methodologies were pervasive because the dollar risk exposure and volume of CPD grant activities from several thousand grantees (approximately $4.5 billion in annual appropriations to support CPD-related programs, including the HOME Investment Partnerships Program, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Shelter Grant) and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with the statutory requirements and GAAP were considered. Due to these issues, we determined that financial transactions related to CPD's formula based programs that entered HUD's accounting system had been processed incorrectly. Although FIFO has been removed for disbursements and commitments made from fiscal year 2015 and forward grants, this method will not be removed retroactively from prior year grants. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2015 and in prior-years were materially misstated. The related amount of material misstatements for these CPD programs in the accompanying combined statement of budgetary resources could not be readily determined to reliably support the budgetary balances reported by HUD at yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

Ginnie Mae's budgetary module within its Ginnie Mae Financial Accounting System did not accurately account for some of Ginnie Mae's budgetary resources. As a result, Ginnie Mae recorded several material top level adjustments to bring the balances into agreement with Ginnie Mae's control totals, most of which could not be supported. In addition, Ginnie Mae was unable to provide adequate documentation for transactional activity occurring in these accounts. As a result, we were unable to obtain sufficient, appropriate audit evidence regarding the accuracy of these adjustments because of when they were performed and the lack of adequate supporting documentation available for us to complete our review. Therefore we cannot form an opinion on the reliability of the status of Ginnie Mae's budgetary resources reported on HUD's combined statement of budgetary resources as of September 30, 2015, which totaled $19.8 billion.

*Disclaimer of opinion on Ginnie Mae financial statements.* For the second consecutive year, in fiscal year 2015, (1) we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio and (2) Ginnie Mae continued to

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are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

improperly account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset. Additionally, Ginnie Mae performed restatements to correct prior-year misstatements; however, we were unable to gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

A number of Ginnie Mae balance sheet line items made up the $5.4 billion in nonpooled loan assets[3] which were consolidated into other-non-credit reform loans reported on HUD's consolidated balance sheet. The previous contractors maintained Ginnie Mae's accounting records and the supporting data. However, those records did not completely transfer to Ginnie Mae when it changed servicing contractors in September 2014. As a result, Ginnie Mae was unable to provide appropriate supporting documentation and data to enable us to audit the completeness and accuracy of these asset balances. Because of this limitation in our audit scope, we were unable to determine whether adjustments might be necessary with respect to these nonpooled loan assets.

Ginnie Mae continued to improperly account for Federal Housing Administration (FHA) reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2015. This practice caused Ginnie Mae's asset and net income line items to be misstated, resulting in misstatements in HUD's assets, expenses, and net position. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors that we identified were material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

In addition, as discussed in note 31, Ginnie Mae performed a restatement to correct prior period misstatements, many of which were consolidated into HUD's financial statements. These adjustments affected multiple asset, liabilities, and net position line items on HUD's consolidated balance sheet by $150 million, expenses and revenues on HUD's consolidated statement of net cost by $5.7 million, and net cost of operations on the consolidated statement of changes in net position by $150 million. Ginnie Mae also performed a second restatement of its reserve for loss balance, which impacted HUD's loss reserves and other non-credit-reform-loans reported on its consolidated balance sheet by $739 million. On October 23 and November 3, 2015, Ginnie Mae notified us about these adjustments. Due to the late notification of the adjustments, this condition limited our ability to adequately review them and gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

*Improper accounting for HUD's assets.* HUD did not properly account for several types of assets reported on its balance sheet related to (1) payments advanced to public housing agencies (PHA) for the Housing Choice Voucher program, (2) payments advanced to

[3] These are (1) mortgage loans held for investment, net ($4,353 million), (2) advances against defaulted mortgage backed security pools, net ($119 million), (3) claims receivable, net ($814 million), accrued interest receivable, net ($48 million) and acquired properties, net ($30 million).

Indian Housing Block Grant (IHBG) grantees for investment purposes, and (3) loans receivable related to the Emergency Homeowners' Loan Program (EHLP).

HUD adjusted its Office of Public and Indian Housing (PIH) prepayments reported on its consolidated balance sheet as of September 30, 2015, by $466.5 million for advanced funds held by Moving To Work (MTW) PHAs. HUD was not able to recognize a comparable amount as of September 30, 2014, for inclusion in its comparative statements because of the unavailability of information. Due to the (1) timing of the adjustment and (2) lack of appropriate supporting data, we were unable to perform sufficient audit procedures necessary to obtain reasonable assurance regarding the material adjustment performed. Further, not recognizing the balance of advanced funds held at MTW PHAs in both years presented did not comply with GAAP and prevented consistency between years presented.

HUD authorized recipients of Federal funds to retain funding advanced to it before incurring eligible expenses; however, HUD did not recognize these as advances on its financial statements in accordance with Statements on Federal Financial Accounting Standards 1. As of June 30, 2015, as much as $273 million was being held in investment accounts with PHAs and IHBG grantees, which represented an advance in accordance with the standards. Instead, HUD elected to present these as expenses on its statement of net cost once they were disbursed. Therefore, we believe the PIH prepayment reported on HUD's consolidated balance sheet and expenses reported on HUD's consolidated statement of net cost were likely misstated as of September 30, 2015, by approximately $273 million.

Lastly, HUD was unable to provide the loans receivable portfolio for EHLP for audit during the fiscal year due to a data review being performed as a result of serious deficiencies in the accuracy of the loan balances identified in our prior year audit report[4]. Therefore, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the balances reported in the direct loan and loan guarantees line item reported on HUD's consolidated balance sheet as of September 30, 2015 related to EHLP. The total loan principal issued under this program was $246 million; however HUD was unable to determine whether the current balance recognized of $133.6 million was an accurate net realizable value of the portfolio.

*Unvalidated grant accrual estimates*. In reporting on HUD's liabilities, HUD's principal financial statements were not prepared in accordance with the requirements of the Federal Government and Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12. FASAB TR 12 provides guidance to agencies on developing reasonable estimates of accrued grant liabilities to report on their financial statements. While we obtained sufficient, appropriate audit evidence that fiscal year 2014's estimate was reasonable, we were unable to do so for the fiscal year 2015 estimate. This lack of

[4] Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014

evidence was due to (1) CPD's not adequately validating its accrued grant liability estimates and (2) insufficient time to perform all of the audit procedures we deemed necessary to obtain sufficient appropriate audit evidence to form an opinion on the estimate in lieu of adequate validation procedures by CPD. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding the $2 billion estimate. Therefore, we could not form an opinion on HUD's grant accrual estimate for fiscal year 2015. CPD's fiscal year 2015 estimated accrued grant liabilities were $2 billion, accounting for 84 percent of $2.4 billion total accrued grant liabilities reported on HUD's consolidated balance sheet.

## Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2015 and 2014 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

## Emphasis of Matter

Restatement

At the time of issuance of this auditor's report and as discussed in note 31 to the financial statements, the 2014 financial statements have been restated for the correction of errors related to Ginnie Mae's accounting for cash and other monetary assets, general property, plant, and equipment and multiclass fee accounting. There were other material misstatements in the fiscal year 2015 financial statements related to the use of the FIFO method to liquidate obligations under CPD's formula grant programs. No adjustments had been made related to the use of FIFO because the specific amount of misstatements and their related effects were unknown. Additional details on these items can be found in note 31 to the financial statements. However, as stated in our basis for disclaimer, HUD did not include in its restatement the effects of correction of errors related to (1) PIH's excess funds held at MTW PHAs as of September 30, 2014 which was estimated to be $573 million, preventing consistency between periods presented, and (2) the correction of errors related to loans issued under the EHLP which have a loan principal of $246 million of which only $133.6 million is recognized on the financial statements. Additionally, as discussed in our basis for disclaimer, advanced funds held by grantees for IHBG grantees, which totaled as much as $218 million as of September 30, 2014 were not included in the financial statements due to HUD's disagreement regarding the presentation of these advances.

FHA's Loan Guarantee Liability

The loan guarantee liability (LGL) is an actuarially determined estimate of the net present value of future claims, net of future premiums and future recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. This year's estimate is the mean value from a series of projections using many economic scenarios and FHA's single family liability for loan guarantee estimates reported as of September 30, 2015, and could change depending on which economic outcome prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or may contain technical errors. The LGL is discussed further in note 1 to the financial statements. Our opinion is not modified with respect to this matter.

## Other Matters

Required Supplementary Information

U.S. GAAP requires that certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements into an appropriate operational, economic, or historical context. We did not audit and do not express an opinion or provide any assurance on this information; however, we applied certain limited procedures, in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge the auditor obtained during the audit of the basic financial statements. These limited procedures do not provide sufficient evidence to express an opinion or provide any assurance on the information.

In its fiscal year 2015 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by FASAB and OMB Circular A-136.

Other Information

In September 2015, OIG and Ginnie Mae published restatement memorandums to notify report users about the material misstatements identified during our fiscal year 2014 audit of Ginnie Mae's financial statements. In October 2015, Ginnie Mae performed a restatement to correct the fiscal year 2014 financial statements, and HUD performed a restatement of the consolidated financial statements as well. However, Ginnie Mae made this restatement to correct the additional accounting errors identified in fiscal year 2015. Those issues included in the September 2015 restatement memorandums had not been addressed. Accordingly, an additional restatement of Ginnie Mae's and HUD's consolidated financial statements may occur at a later time.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. HUD's agency financial report contains other information that is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we do not express an opinion or provide assurance on it.

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Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls are summarized below and were provided in separate reports to HUD management.[5] These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

## Report on Internal Control

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 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. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we noted in our reports the following nine material weaknesses and eight significant deficiencies.

## Material Weaknesses

<u>CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements</u>

CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method for committing and disbursing obligations. Since 2013, we have reported that the information system used, Integrated Disbursement Information System (IDIS) Online, a

[5] Audit Report 2016-FO-0003, Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 18, 2015; Audit Report 2016-FO-0002, Federal Housing Administration Financial Statements Audit, issued November 16, 2015; Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015

grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. As a result, budget year grant obligation balances continued to be misstated, and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS were necessary for the system to comply with the Federal Financial Management Improvement Act (FFMIA) and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method made it impossible to quantify the financial effects of FIFO on HUD's consolidated financial statements. Further, because of the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the combined statement of budgetary resources and the consolidated balance sheet were materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

HUD Did Not Account for Assets and Liabilities in Its Public and Indian Housing Programs in Accordance With GAAP and FFMIA

HUD did not properly account for advances (PIH prepayment),[6] receivables, and payables in its PIH programs in accordance with U.S. GAAP and FFMIA. First, HUD accounted for prepayments to MTW PHAs for fiscal year 2015 through manual fiscal-yearend adjustments that were based on self-reported data, not transactional data. It also did not recognize a comparative amount for fiscal year 2014. Second, HUD's accounting for its cash management process was untimely and incomplete because it did not include the recognition of receivables and payables when incurred. Third, HUD did not recognize a prepayment for funds advanced to its IHBG grantees used for investment. These problems occurred because of its continued weak internal controls over the cash management process, including the lack of an automated process. Additionally, the Office of the Chief Financial Officer (OCFO) did not have a mechanism to routinely communicate with program offices to evaluate GAAP compliance of program transactions. As a result, several significant financial statement line items were misstated or could not be audited as of September 30, 2015. Specifically, (1) $466.5 million recorded for MTW PHAs' housing assistance prepayment could not be audited; (2) HUD's PIH prepayments and accounts receivable on its balance sheet were understated by $232 million[7] and $41 million, respectively; (3) HUD's expenses on its statement of net costs were overstated by $273 million; and (4) HUD's accounts payable were understated by an unknown amount.

CPD's Grant Accrual Estimates Were Not Validated

CPD did not validate its estimated accrued grant liabilities. This deficiency was due to a lack of procedures and relevant grantee reporting. As a result, CPD could not ensure that its

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[6] HUD accounts for advances in the PIH program as PIH prepayments.

[7] $232 million= $273 million in prepayments not recorded for IHBG minus a $41 million receivable not recorded in the Housing Choice Voucher program. This should have reduced the prepayment.

assumptions, and therefore its estimates were accurate. Additionally, we were unable to obtain sufficient, appropriate audit evidence on CPD's fiscal year 2015 estimated accrued grant liabilities. Therefore, we could not form an opinion on CPD's grant accrual estimate for fiscal year 2015.

Ginnie Mae's System's Data To Account for Its Budgetary Resources Were Not Auditable

In response to our fiscal year 2013 recommendation[8] regarding a material internal control weakness in financial reporting, Ginnie Mae implemented a system to account for its budgetary resources; however, the implementation was problematic, and the system's data was not reliable. Therefore, Ginnie Mae reverted to manual processes for reporting its budgetary resources to the consolidated financial statements. During fiscal year 2015, we were not able to audit the budgetary resource activity because Ginnie Mae (1) manually adjusted most of its budgetary accounts, (2) lacked proper controls or an adequate audit trail to support its material adjustments, and (3) did not provide its budgetary resources trial balances and detailed supporting documentation within the timeframe needed to conduct adequate audit procedures. This condition occurred because Ginnie Mae management did not devote sufficient resources to system implementation. As a result, we could not provide reasonable assurance regarding the status of $19.8 billion in budgetary resources that HUD reported for Ginnie Mae as of September 30, 2015.

HUD's Financial Management System Weaknesses Continued in 2015

Financial system limitations and deficiencies remained a material weakness in fiscal year 2015, although there were efforts to modernize HUD's financial management system by moving key financial management functions to a Federal shared service provider. These system limitations and deficiencies existed because of HUD's inability to modernize its legacy financial systems and the lack of an integrated financial management system, which we have reported on annually since 1991. Program offices compensated for system limitations by using less reliable manual processes to meet financial management needs. Existing system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable

In fiscal year 2015, Ginnie Mae again failed to bring its material asset balances related to nonpooled loans, including the related accounts, into an auditable state. For this reason, we deemed last year's audit matters to be unresolved, and we were unable to audit the $5.4 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's and HUD's consolidated financial statements as of September 30, 2015. This condition occurred because Ginnie Mae's executive management[3] did not ensure that Ginnie Mae's or its master subservicers' financial management systems were capable of meeting Ginnie Mae's loanlevel transaction accounting

[8] 2014-FO-0003, recommendation 3B, Develop and implement plans to ensure that Ginnie Mae's core financial system is updated to include functionality in the system to perform budgetary accounting at a transaction level using the USSGL to comply with FFMIA.

requirements to comply with GAAP. These deficiencies resulted in Ginnie Mae producing unauditable financial statements with materially misstated asset balances.

Given the current state of Ginnie Mae's accounting systems and records, we were again unable to perform all of the audit procedures that we determined to be necessary for obtaining sufficient, appropriate evidence. As a result, our audit scope was insufficient to express an opinion on Ginnie Mae's $5.4 billion in nonpooled loan assets as of September 30, 2015.

<u>Ginnie Mae's Internal Controls Over Financial Reporting Continued To Have Weaknesses</u>
In fiscal year 2014, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2015. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs and accrued interest earned on nonpooled loans, (2) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, (3) improper classification and presentation of financial information in Ginnie Mae's statement of cash flows, (4) improper revenue recognition of guarantee fees, (5) improper accounting for the month-end's custodial account balances, (6) omission of the required footnote disclosure and (7) the use of an unreasonable assumption in estimating the valuation of its mortgage servicing rights portfolio. The first three issues were repeat findings from the fiscal year 2014, and the remaining four issues were new in fiscal year 2015. This occurred because of executive management's failure to ensure (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively, (2) serious staffing problems within Ginnie Mae's OCFO were addressed, and (3) accounting policies, procedures, and systems were in place to track accounting transactions and events at a loan level. As a result of these deficiencies, Ginnie Mae failed to prevent or detect material misstatements in its financial statements.

<u>Ginnie Mae's Mortgage-Backed Security Liabilities for Loss Account Balance Remained Unreliable</u>
In fiscal year 2015, Ginnie Mae's executive management confirmed our concerns about the reliability of the yearend balance in its mortgage-backed securities loss liability account in a written representation letter provided to OIG this year. Specific issues posed in the fiscal year 2014 audit report were related to (1) improper accounting treatment of selected accounting transactions on nonpooled loans in the mortgage-backed securities loss liability account and (2) a lack of evidence to support the reasonableness of key management assumptions used in the loss reserve model. Factors that contributed to the issue included the adoption of an inappropriate loan accounting policy and a lack of indepth analysis to validate the reasonableness of the management assumptions. Considering the impact of these issues and their significance, for the second year, we deemed the mortgage-backed securities loss liability account to be unreliable.

HUD's and Ginnie Mae's Financial Management Governance Was Ineffective[9]

Overall, we determined that HUD's financial management governance remained ineffective. Weaknesses in program and component internal control that impacted financial reporting were able to develop in part due to a lack of financial management governance processes that could detect or prevent significant program and component-level internal control weaknesses.

Ginnie Mae's executive management failed to make significant improvements in addressing the financial management governance problems cited in our fiscal year 2014 audit report and regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in the Ginnie Mae OCFO, (2) ensure that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner, and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found Ginnie Mae's entitywide governance of the models used to generate accounting estimates for financial reporting was ineffective. This condition occurred because (1) Ginnie Mae's President and Executive Vice President failed to set the appropriate tone at the top by delaying needed changes in its accounting operations and (2) Ginnie Mae was overwhelmed by the difficult and complex financial management challenges encountered during the year, coupled with the lack of adequate senior accounting and financial staff to manage these problems. These failures in governance by Ginnie Mae's executive management contributed to its failure to prevent or detect material misstatements and impaired Ginnie Mae's ability to produce auditable financial statements.

While HUD and its components took steps in fiscal year 2015 to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, OCFO needed to provide stronger direction to program office accounting and improve financial management and governance issues at Ginnie Mae. Additionally, HUD needs to be more consistent in its control and monitoring activities, including front-end risk assessments, management control reviews, and reconciliation activities. These conditions stemmed from HUD's inadequate implementation of the CFO Act and the lack of a senior management council. These shortcomings limited the ability of OCFO to stress the importance of financial management and facilitate internal control over financial reporting throughout HUD. Additionally, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and was in the process of replacing its outdated legacy financial systems. Weaknesses in program and component internal control that impacted financial reporting were able to develop in part due to a lack of financial management governance processes. Entity-level controls could improve HUD's governance and enable the prevention, detection, and mitigation of significant program and component-level internal control

[9] This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2016-FO-0003, Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, and Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated).

weaknesses. As a result of control weaknesses, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

### Significant Deficiencies

Weaknesses in HUD's Administrative Control of Funds System Continued
We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. HUD continued to not have a fully implemented and complete administrative control of funds system that provided oversight of both obligations and disbursements. Our review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds; (2) program codes were not included in funds control plans; (3) funds control plans were out of date or did not reflect the controls and procedures in place; and (4) OCFO staff processed accounting changes without proper review, approval, and sufficient supporting documentation. These conditions existed because of (1) decisions made by HUD OCFO, (2) failures by HUD's allotment holders to update their funds control plans and notify OCFO of changes in their obligation process before implementation, (3) a lack of compliance reviews in prior years, and (4) a lack of policies and procedures requiring documentation of system accounting changes. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act (ADA).

HUD Continued To Report Significant Amounts of Invalid Obligations
Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, some program offices did not complete their obligation reviews in a timely manner, and we discovered $200.4 million in invalid obligations not previously identified by HUD. We discovered another $331.1 million in obligations that had been inactive for at least 2 years, indicating potentially additional invalid obligations. We also discovered $30.7 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year that remained on the books as of September 30, 2015. These deficiencies were attributed to ineffective monitoring efforts and the inability to promptly process contract closeouts. We also noted that, as of September 30, 2015, HUD had not implemented prior-year recommendations to deobligate $106.3 million in funds. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by $668.5 million.

The Emergency Homeowners' Loan Program Data Was Not Auditable
Loan balances related to EHLP were incomplete, unreliable, and not available for audit during the fiscal year 2015 audit. This condition occurred because the loan data in HUD's systems were not reliable and HUD did not complete a review of the data in time for inclusion in the fiscal year 2015 financial statements. As a result, we were unable to perform all of the audit procedures we deemed necessary to obtain sufficient, appropriate audit evidence regarding the accuracy of loan receivable balances related to the EHLP. However, loans with a total principal of at least $116 million had not been recorded in the subsidiary ledger as of the end of fiscal year 2015, increasing the risk of misstatement.

HUD's Computing Environment Controls Had Weaknesses

HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its programs, mortgage insurance, financial management, and administrative operations. In fiscal year 2015, we audited general controls over the IBM mainframe general support system, which houses applications that support the preparation of HUD's financial statements. HUD did not ensure that general controls over its computing environment fully complied with Federal requirements. Specifically, (1) some accounts on the IBM mainframe were not properly managed and (2) vulnerabilities were not reported in system security documentation. These weaknesses occurred because policies were not always followed. In addition, although HUD had taken action to address information system control weaknesses reported in prior years, several of those weaknesses remained open. Without adequate general controls, there was no assurance that financial management applications and the data within them were adequately protected.

Ginnie Mae Did Not Provide Adequate Oversight of its Master Subservicer To Ensure Compliance With Federal Regulations and Guidance

Ginnie Mae did not provide adequate oversight of one of its single family master subservicers to ensure adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, (1) proper segregation of duties does not exist over cash processes; (2) ongoing monitoring was not in place to review change activities made by individuals in the loan administration department, who had access to and change capability for master data for approximately 21,000 loans; and (3) management used an ineffective monitoring tool that did not capture all financial data adjustments. These conditions occurred because (1) the contractor believed that the risk of wrongful acts was mitigated through its use of security cameras, access restrictions, and background checks; (2) management did not have a policy and process to perform periodic monitoring or review reports to ensure that unauthorized changes were not made; (3) the approval process for adjustments was not automated within the contractor's primary financial system that houses all loan transactions; and (4) the report that was used to monitor financial data changes did not allow for a meaningful review because it did not capture all financial data adjustments. As a result, Ginnie Mae's data was susceptible to unauthorized access and tampering which increased its risk of undetected misstatements in the financial statements.

Controls To Prevent Misclassification of FHA Receivables Had Not Been Fully Implemented

In fiscal year 2015, our review of partial claims found that the risk of not completely and accurately identifying recorded loans receivable with missing notes at the end of each reporting period continued to be an issue. The risk continued because the action plans developed by FHA in 2015 to remedy the control deficiencies identified in our 2014 audit report have not been fully implemented. As a result, we continue to have concerns regarding the reliability of financial information related to loans receivable produced using FHA's current partial claims business processes.

FHA's Internal Control Over Financial Reporting Had Weaknesses

In fiscal year 2015, we identified weaknesses in FHA's internal control over financial reporting. These weaknesses related to (1) a failure to obligate funds for future borrower disbursements upon home equity conversion mortgages (HECM) notes, (2) a failure to implement some key controls over its cash flow modeling processes, and (3) inadequate procedures for identifying and reviewing abnormal USSGL account balances. Factors contributing to these issues were (1) FHA's belief that future borrower disbursements should be treated as claim payments made to lenders and (2) the lack of emphasis on the need for or importance of maintaining complete and up-to-date model documentations. These weaknesses significantly increased FHA's risk of having errors in its financial statements and not preventing and detecting them in a timely manner.

Weaknesses Were Identified in Selected FHA Information Technology Systems

Our review of the general and application controls over FHA's Single Family Insurance System (SFIS) and the Claims subsystem found that (1) there were weaknesses in the SFIS information system, which included five of the nine vulnerabilities identified during the fiscal year 2015 vulnerability scan previously identified but not corrected; (2) the risk assessment prepared for SFIS did not accurately document whether SFIS was operating with an acceptable level of risk; (3) effective application contingency planning had not been implemented for SFIS; (4) SFIS may be at risk due to improperly implemented security controls with connected applications; and (5) SFIS management was not familiar with the data values. Additionally, we found a weakness in the Claims information system, in which some of the personally identifiable information (PII) was not encrypted. These conditions occurred because some application controls were not sufficient. As a result, the information used to provide input to the FHA financial statements could be adversely affected.

## Report on Compliance With Laws and Regulations

In connection with our audit, we performed tests of HUD's compliance with certain provisions of laws and regulations. The results of our tests disclosed six instances of noncompliance that are required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, or OMB Bulletin No. 15-02, Audit Requirements for Federal Financial Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act

We have reported on HUD's lack of an integrated financial management system annually since 1991. In fiscal year 2015, we noted a number of instances of FFMIA noncompliance with HUD's financial management system. HUD's continued noncompliance was due to a reliance on financial system limitations and information security weaknesses. While HUD continued to work toward financial management system modernization in 2015, significant challenges remained.

HUD Continued To Not Comply With the HOME Investment Partnership Act

HUD continued to not comply with section 218(g) of the HOME Investment Partnership Act (also known as the HOME Statute) regarding grant commitment requirements. HUD's misinterpretation of the plain language in the Act, the implementation of the cumulative method and the FIFO technique, and HUD's recapture policies continued to result in HUD's noncompliance with HOME Statute requirements. Further, HUD's corrective action plan to modify IDIS to assess grantee compliance on a grant-by-grant basis for fiscal year 2015 and later grants was halted due to budget shortfalls. As a result, HUD incorrectly permitted some jurisdictions to retain, commit, and disburse HOME Investment Partnerships Program grant funds beyond the statutory deadline. HUD will continue to be noncompliant with related laws and regulations until the cumulative method is no longer used to determine whether grantees meet commitment deadlines required by the HOME Statute. Additionally, we concluded that these conditions created the potential for an ADA violation, which was reported to OCFO in an audit memorandum.[10] Lastly, allowing grantees to disburse from commitments made outside the 24-month statutory period may have caused HUD to incur improper payments.

HUD Did Not Comply With Treasury's Financial Manual's Rules on Cash Management or 2 CFR Part 200

HUD did not comply with Treasury's cash management regulations[11] and 2 CFR (Code of Federal Regulations) Part 200[12] because HUD's PHAs maintained Federal cash in excess of their immediate disbursement need. Specifically, MTW PHAs reported maintaining $573 million and $466.5 million as of September 30, 2014, and September 30, 2015, respectively. In addition, non-MTW PHAs held between $81 million and $106 million for up to 6 months before it was transitioned back to HUD. This condition occurred because HUD could not quantify the amount of MTW accumulations that existed or how much it should transition. Additionally, HUD did not have a system to perform (1) cash reconciliations to identify accumulations and (2) offsets to transition accumulations back to HUD in a timely manner. Since PHAs maintained these funds in excess of their immediate disbursement needs for extended periods, HUD did not in comply with Treasury's cash management regulations or the related CFR regulations, and it could not ensure that these funds were properly safeguarded against fraud, waste, and abuse.

HUD Reported 14 ADA Violations in October 2015; and OIG Referred One Potential Violation to HUD

In fiscal year 2015, HUD OCFO made demonstrable progress and remedied long-standing issues related to ADA reporting requirements in October 2015.[13] As of September 30, 2015, all

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[10] Audit Memorandum 2015-FO-0801, Potential Antideficiency Act Violation HOME Investment Partnerships Program, issued June 16, 2015.

[11] Treasury Financial Manual Vol. 1, Part 4A- Section 2045.10- Cash Advances Establishing Procedure for Cash Advances-section 3.

[12] 2 CFR 200 305.

[13] 31 U.SC. (United States Code) 1341, 1342, 1350, 1517, and 1519; Once it has been determined that there has been a violation of 31 U.S.C 1341(a), 1342, or 1517(a), the agency head "shall report immediately to the President and Congress all relevant facts and a statement of actions taken" in accordance with 31 U.S.C. 1351, and 1517(b).

confirmed ADA violations were with OMB for review and approval. We noted that in October 2015, HUD reported 14 ADA violations that occurred between 2004 and 2014 to the President, U.S. Government Accountability Office (GAO), and Congress. Additionally, during the course of our 2015 audit, we noted a potential ADA violation regarding the HOME Investment Partnerships Program.

HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010

For fiscal year 2014, HUD[14] found that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not include all accompanying materials required by OMB in its published fiscal year 2014 agency financial report and (2) did not conduct a compliant program specific risk assessment for each program. Specifically, HUD did not adequately report on its supplemental measures as required by OMB and its risk assessment did not include a review of all relevant OIG audit reports. This is the second year in a row that HUD did not comply with IPERA. Additionally, significant improper payments in HUD's rental housing assistance programs continued during fiscal year 2014.

Ginnie Mae Did Not in Comply With the Debt Collection Improvement Act of 1996

Ginnie Mae did not take all steps necessary to maximize collection of mortgage-backed securities (MBS) program debts as required by the Debt Collection Improvement Act (DCIA) of 1996. Specifically, it failed to analyze the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae using all debt collection tools allowed by law before writing them off. This condition occurred because Ginnie Mae's executive management decided to not pursue the MBS program debts because it believed that DCIA did not apply to Ginnie Mae; therefore it did not need to comply with DCIA requirements. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its MBS program.

### Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2015 and 2014 financial statements. Our report on FHA's financial statements, dated November 16, 2015,[15] includes an unqualified opinion on FHA's financial statements, along with discussion of three significant deficiencies in internal controls.

### Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2015 and 2014 (restated) financial statements. Our report on Ginnie Mae's financial statements, dated November 13, 2015,[16] includes a disclaimer of opinion on these financial statements, along with discussion of four

[14] Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2015.

[15] Audit Report 2016-FO-0002, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014, issued November 16, 2015, was incorporated into this report.

[16] Audit Report 2016-FO-0001, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015, was incorporated into this report.

material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

## Objectives, Scope, and Methodology

As part of our audit, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, we do not provide an opinion on internal controls. We conducted our audit in accordance with Government Auditing Standards and the requirements of OMB Bulletin 15-02. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements.

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2015 agency financial report, we performed limited testing procedures as required by AU-C 730, Required Supplementary Information. Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

Because of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

## Agency Comments and Our Evaluation

On November 5, 2015, we provided a draft of the internal control and compliance sections of our report to OCFO, appropriate assistant secretaries, and other departmental officials and requested that OCFO coordinate a departmentwide response. OCFO responded in a memorandum dated November 10, 2015, which is included in its entirety in our separate report, along with our complete evaluation of the response. In summary, while OCFO recognized there were some weaknesses within its operations, it indicated it did not have adequate time to sufficiently validate the information within the draft report. It also indicated that beginning in December 2015 it would work closely with the OIG to develop optimal resolutions to result in a more effective HUD.

All facts presented were communicated to the OCFO and applicable program offices throughout the course of the audit through multiple vehicles such as assessments, notifications of findings and recommendations, finding outlines, and periodic status meetings. Additionally, all the findings presented, with the exception of two, were reported in prior years and represent long standing weaknesses within HUD's financial management. We look forward to working with HUD to find satisfactory resolution to the findings presented through the audit resolution process.

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This report is intended for the information and use of the management of HUD, OMB, GAO, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operations that we are reporting to HUD management in a separate management letter.

Frank Rokosz
Deputy Assistant Inspector General for Audit

November 18, 2015

# Appendixes

## Appendix A

**Schedule of Questioned Costs and Funds To Be Put to Better Use**

| Audit report number | Unsupported 1/ | Funds to be put to better use 2/ |
|---|---|---|
| 2016-FO-0001 | $291,489,605 | |
| 2016-FO-0003 | | $1,071,263,037 |
| **Totals** | $291,489,605 | $1,071,263,037 |

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

# Appendix B

**HUD's Fiscal Years 2015 and 2014 (Restated) Consolidated Financial Statements and Notes**

**Department of Housing and Urban Development**
**Consolidated Balance Sheet**
**As Of September 2015 and 2014**
**(Dollars in Millions)**

| | 2015 | (Restated) 2014 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental | | |
| Fund Balance with Treasury (Note 4) | $ 94,691 | $ 121,703 |
| Investments (Note 5) | 27,677 | 6,529 |
| Other Assets (Note 10) | 9 | 34 |
| Total Intragovernmental Assets | 122,377 | 128,266 |
| Cash and Other Monetary Assets (Note 4) | 45 | 37 |
| Investments (Note 5) | 31 | 41 |
| Accounts Receivable, Net (Note 6) | 780 | 1,887 |
| Direct Loan and Loan Guarantees, Net (Note 7) | 14,425 | 10,868 |
| Other Non Credit Reform Loans (Note 8) | 3,227 | 2,809 |
| General Property Plant and Equipment, Net (Note 9) | 329 | 308 |
| PIH Prepayments | 672 | 423 |
| Other Assets (Note 10) | 45 | 48 |
| **TOTAL ASSETS** | **$ 141,931** | **$ 144,687** |
| Stewardship PP&E (Note 11) | - | - |
| **LIABILITIES** | | |
| Intragovernmental Liabilities | | |
| Accounts Payable (Note 11) | 15 | 16 |
| Debt (Note 12) | 27,150 | 27,661 |
| Other Intragovernmental Liabilities (Notes 15) | 2,610 | 1,801 |
| Total Intragovernmental Liabilities | 29,775 | 29,478 |
| Accounts Payable (Note 11) | 966 | 864 |
| Accrued Grant Liabilities | 2,388 | 1,501 |
| Loan Guarantee Liability (Note 7) | 14,307 | 31,779 |
| Debt Held by the Public (Note 12) | 8 | 8 |
| Federal Employee and Veteran Benefits (Note 13) | 69 | 74 |
| Loss Reserves (Note 14) | - | - |
| Other Governmental Liabilities (Notes 15) | 1,239 | 1,078 |
| **TOTAL LIABILITIES** | **$ 48,752** | **$ 64,782** |
| Commitments and Contingencies (Note 17) | 55 | 15 |
| **NET POSITION** | | |
| Unexpended Appropriations - Funds From Dedicated Collections (Note 18) | (320) | (224) |
| Unexpended Appropriations - Other Funds | 51,435 | 56,443 |
| Cumulative Results of Operations - Funds From Dedicated Collections (Note 18) | 21,417 | 19,623 |
| Cumulative Results of Operations - Other Funds | 20,647 | 4,063 |
| **TOTAL NET POSITION - Funds From Dedicated Collections** | 21,097 | 19,399 |
| **TOTAL NET POSITION - All Other Funds** | 72,082 | 60,506 |
| **TOTAL NET POSITION** | 93,179 | 79,905 |
| **TOTAL LIABILITIES AND NET POSITION** | **$ 141,931** | **$ 144,687** |

The accompanying notes are an integral part of these statements.

**Department of Housing and Urban Development**
**Consolidating Statement of Net Cost**
**For the Period Ending September 2015 and 2014**
**(Dollars in Millions)**

| | 2015 | (Restated) 2014 |
|---|---|---|
| **COSTS** | | |
| **Federal Housing Administration** | | |
| Gross Cost (Note 22) | $ (16,201) | $ (3,108) |
| Less: Earned Revenue | (1,849) | (2,181) |
| Net Program Costs | (18,050) | (5,289) |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | (18,050) | (5,289) |
| **Government National Mortgage Association** | | |
| Gross Cost (Note 22) | (234) | (38) |
| Less: Earned Revenue | (1,555) | (1,558) |
| Net Program Costs | (1,789) | (1,596) |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | (1,789) | (1,596) |
| **Section 8 Rental Assistance** | | |
| Gross Cost (Note 22) | 29,482 | 28,772 |
| Less: Earned Revenue | - | - |
| Net Program Costs | 29,482 | 28,772 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 29,482 | 28,772 |
| **Public and Indian Housing Loans and Grants** | | |
| Gross Cost (Note 22) | 2,835 | 2,995 |
| Less: Earned Revenue | - | - |
| Net Program Costs | 2,835 | 2,995 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 2,835 | 2,995 |
| **Homeless Assistance Grants** | | |
| Gross Cost (Note 22) | 1,894 | 1,881 |
| Less: Earned Revenue | (4) | - |
| Net Program Costs | 1,890 | 1,881 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 1,890 | 1,881 |
| **Housing for the Elderly and Disabled** | | |
| Gross Cost (Note 22) | 1,037 | 1,196 |
| Less: Earned Revenue | (136) | (177) |
| Net Program Costs | 901 | 1,019 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 901 | 1,019 |
| **Community Development Block Grants** | | |
| Gross Cost (Note 22) | 7,567 | 5,905 |
| Less: Earned Revenue | - | (1) |
| Net Program Costs | 7,567 | 5,904 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 7,567 | 5,904 |
| **HOME** | | |
| Gross Cost (Note 22) | 1,241 | 1,064 |
| Less: Earned Revenue | - | - |
| Net Program Costs | 1,241 | 1,064 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 1,241 | 1,064 |
| **Other** | | |
| Gross Cost (Note 22) | 6,071 | 6,503 |
| Less: Earned Revenue | (29) | (39) |
| Net Program Costs | 6,042 | 6,464 |
| Gain/Loss from Assumption Changes (Note 15) | - | - |
| Net Program Costs including Assumption Changes | 6,042 | 6,464 |
| **Costs Not Assigned to Programs** | 218 | 218 |
| **Earned Revenue Not Attributed to Programs** | - | - |
| **Consolidated** | | |
| Gross Cost (Note 22) | 33,910 | 45,388 |
| Less: Earned Revenue | (3,573) | (3,956) |
| **NET COST OF OPERATIONS** | **$ 30,337** | **$ 41,432** |

The accompanying notes are an integral part of these statements.

**Department of Housing and Urban Development**
**Consolidated Statement of Changes in Net Position**
**For the Period Ending September 2015 and 2014**
**(Dollars in Millions)**

| | 2015 | | | (Restated) 2014 | | |
|---|---|---|---|---|---|---|
| | **FUNDS FROM DEDICATED COLL.** | **ALL OTHER FUNDS** | **CONSOLIDATED TOTAL** | **FUNDS FROM DEDICATED COLL.** | **ALL OTHER FUNDS** | **CONSOLIDATED TOTAL** |
| **CUMULATIVE RESULTS OF OPERATIONS:** | | | | | | |
| Beginning of Period | $ 19,622 | $ 4,063 | $ 23,685 | $ 18,151 | $ 426 | $ 18,577 |
| Adjustments: | | | | | | |
| Corrections of Errors | (3) | - | (3) | (145) | (99) | (244) |
| Beginning Balances, As Adjusted | 19,619 | 4,063 | 23,682 | 18,006 | 327 | 18,333 |
| **BUDGETARY FINANCING SOURCES:** | | | | | | |
| Appropriations Used | 82 | 52,911 | 52,993 | 28 | 49,341 | 49,368 |
| Non-exchange Revenue | 3 | - | 3 | 1 | - | 1 |
| Transfers In/Out Without Reimbursement | - | - | - | 1 | (1) | - |
| **OTHER FINANCING SOURCES (NON-EXCHANGE):** | | | | | | |
| Transfers In/Out Without Reimbursement | - | - | - | (5) | 5 | - |
| Imputed Financing | - | 65 | 65 | 1 | 77 | 78 |
| Other | - | (4,342) | (4,342) | - | (2,663) | (2,663) |
| Total Financing Sources | 85 | 48,634 | 48,719 | 26 | 46,759 | 46,785 |
| Net Cost of Operations | 1,713 | (32,050) | (30,337) | 1,591 | (43,023) | (41,432) |
| Net Change | 1,798 | 16,584 | 18,382 | 1,617 | 3,736 | 5,353 |
| **CUMULATIVE RESULTS OF OPERATIONS** | **$ 21,417** | **$ 20,647** | **$ 42,064** | **$ 19,623** | **$ 4,063** | **$ 23,686** |
| **UNEXPENDED APPROPRIATIONS:** | | | | | | |
| Beginning of Period | $ (222) | $ 56,442 | $ 56,220 | $ (214) | $ 59,995 | $ 59,781 |
| Adjustments: | | | | | | |
| Corrections of Errors | - | 574 | 574 | 19 | 22 | 41 |
| Beginning Balances, As Adjusted | (222) | 57,016 | 56,794 | (195) | 60,017 | 59,822 |
| **BUDGETARY FINANCING SOURCES:** | | | | | | |
| Appropriations Received | - | 47,639 | 47,639 | - | 46,103 | 46,103 |
| Appropriations Transfers In/Out | 8 | (8) | - | - | - | - |
| Other Adjustments | (24) | (301) | (325) | (1) | (336) | (338) |
| Appropriations Used | (82) | (52,911) | (52,993) | (28) | (49,341) | (49,368) |
| Total Budgetary Financing Sources | (98) | (5,581) | (5,679) | (29) | (3,574) | (3,603) |
| **UNEXPENDED APPROPRIATIONS** | **(320)** | **51,435** | **51,115** | **(224)** | **56,443** | **56,219** |
| **NET POSITION** | **$ 21,097** | **$ 72,082** | **$ 93,179** | **$ 19,399** | **$ 60,506** | **$ 79,905** |

The accompanying notes are an integral part of these statements.

**Department of Housing and Urban Development**
**Combined Statement of Budgetary Resources**
**For the Period Ending September 2015 and 2014**
**(Dollars in Millions)**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Budgetary** | **NonBudgetary Credit Program Financing Accounts** | **Budgetary** | **NonBudgetary Credit Program Financing Accounts** |
| **Budgetary Resources:** | | | | |
| Unobligated Balance Brought Foward, October | $ 34,729 | $ 49,760 | $ 28,153 | $ 60,416 |
| **Unobligated balance brought forward, October 1, adjusted** | 34,729 | 49,760 | 28,153 | 60,416 |
| Recoveries of prior year unpaid obligations | 711 | 396 | 643 | 781 |
| Other changes in unobligated balance | (709) | - | (612) | (8) |
| **Unobligated balance from prior year budget authority, net** | 34,731 | 50,156 | 28,184 | 61,189 |
| Appropriations (discretionary and mandatory) | 47,458 | - | 45,790 | - |
| Borrowing Authority (discretionary and mandatory) | - | 12,146 | - | 8,769 |
| Spending Authority from offsetting collections | 26,158 | 28,452 | 14,306 | 27,683 |
| **Total Budgetary Resources** | **$ 108,347** | **$ 90,754** | **$ 88,280** | **$ 97,641** |
| **Status of Budgetary Resources:** | | | | |
| Obligations Incurred (Note 31) | | | | |
| Direct | 63,700 | 49,732 | 53,280 | 45,863 |
| Reimbursable | 194 | 5,560 | 270 | 2,018 |
| **Subtotal** | 63,894 | 55,292 | 53,550 | 47,881 |
| Unobligated Balances | | | - | - |
| Apportioned | 12,992 | 3,612 | 16,092 | 13,583 |
| Unapportioned | 31,461 | 31,850 | 18,638 | 36,177 |
| **Unobligated balance, end of year** | 44,453 | 35,462 | 34,730 | 49,760 |
| **Total Status of Budgetary Resources** | **$ 108,347** | **$ 90,754** | **$ 88,280** | **$ 97,641** |
| **Change in Obligated Balance** | | | | |
| **Unpaid Obligations:** | | | | |
| Unpaid obligations, brought forward, Oct 1 | 41,087 | 2,511 | 44,234 | 2,691 |
| Adjustments to unpaid obligations, start of year (+ or -) (Note 28) | - | - | 11 | - |
| Obligations Incurred | 63,894 | 55,292 | 53,550 | 47,881 |
| Outlays, (gross) (-) | (65,009) | (54,626) | (55,950) | (47,395) |
| Actual Transfers, unpaid obligations (net) (+ or -) | - | - | (115) | 115 |
| Recoveries of prior year unpaid obligations (-) | (711) | (396) | (643) | (781) |
| **Unpaid obligations, end of year (gross)** | 39,261 | 2,781 | 41,087 | 2,511 |
| **Uncollected Payments:** | | | | |
| Uncollected payments, Fed sources, brought forward, Oct 1 (-) | (11) | (53) | (16) | (66) |
| Change in uncollected customer payments, Fed sources (+ or -) | (6) | - | 4 | 13 |
| **Uncollected payments, Fed sources, end of year (-)** | (17) | (53) | (12) | (53) |
| **Obligated balance, start of year (+ or -)** | **$ 41,075** | **$ 2,458** | **$ 44,227** | **$ 2,626** |
| **Obligated balance, end of year (net)** | **$ 39,244** | **$ 2,728** | **$ 41,075** | **$ 2,458** |
| **Budget Authority and Outlays, Net:** | | | | |
| Budget authority, gross (discretionary and mandatory) | 73,614 | 40,598 | 60,095 | 36,453 |
| Actual offsetting collections (discretionary and mandatory) (-) | (26,643) | (41,109) | (14,707) | (34,876) |
| Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -) | (6) | - | 4 | 13 |
| **Budget Authority, net (discretionary and mandatory)** | **$ 46,965** | **$ (511)** | **$ 45,392** | **$ 1,590** |
| Outlays, gross (discretionary and mandatory) | 65,009 | 54,626 | 55,950 | 47,395 |
| Actual offsetting collections (discretionary and mandatory) (-) | (26,640) | (41,109) | (14,707) | (34,876) |
| **Outlays, net (discretionary and mandatory)** | 38,369 | 13,517 | 41,243 | 12,519 |
| Distributed offsetting receipts | (2,844) | - | (2,719) | - |
| **Agency Outlays, net (discretionary and mandatory)** | **$ 35,525** | **$ 13,517** | **$ 38,524** | **$ 12,519** |

The accompanying notes are an integral part of these statements.

# Notes to Financial Statements

# September 30, 2015 and 2014

## Note 1: Entity and Mission

HUD was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The Federal Housing Administration (FHA) administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The Government National Mortgage Association (Ginnie Mae) guarantees the timely payment of principal and interest on Mortgage-Backed Securities (MBS) issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Department of Agriculture (USDA), the Department of Veterans Affairs (VA), and the HUD Office of Public and Indian Housing (PIH).

The Section 8 Rental Assistance programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit funded by the Housing Choice Voucher (HCV) Program.

The Low Rent Public Housing Grants program provides grants to Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs) for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The Homeless Assistance Grants program provides grants to localities to implement innovative approaches to address the diverse facets of homelessness. The grants provide funds for the

Emergency Solutions Grant and Continuum of Care which award funds through formula and competitive processes.

The **Section 202/811** Supportive Housing for the Elderly and Persons with Disabilities programs provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During FY 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and the disabled (Section 811).

The Community Development Block Grant (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the "Community Development Fund" for emergency expenses to respond to various disasters such as Hurricane Katrina and IKE. Funds of $3 billion were disbursed as of September 30, 2015. Any remaining un-obligated balances remain available until expended.

The Home Investments Partnerships program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

**Other Programs** not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and for maintenance costs of PHAs and TDHEs housing projects. The programs provided 13 percent of HUD's consolidated revenues and financing sources as of September 30, 2015.

# Note 2: Summary of Significant Accounting Policies

## A. Basis of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSs) designated to the Department of Housing and Urban Development, which consist of principal program funds, revolving funds, general funds and deposit funds. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these TAFSs have been eliminated to prepare the consolidated balance sheet, statement of net cost, and statement of changes in net position. The SBR is prepared on a combined basis as required by OMB Circular A-136, Financial Reporting Requirements.

The Department's FY 2015 financial statements do not include the accounts and transactions of one transfer appropriation, the Appalachian Regional Commission. Some laws require departments (parent) to allocate budget authority to another department (child). Allocation means a delegation, authorized by law, by one department of its authority to obligate and outlay funds to another department. HUD, the child account, receives budget authority and then obligates and outlays sums of up to the amount included in the allocation. As required by OMB Circular A-136, financial activity is in the parent account which is also accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. Consequently, these balances are not included in HUD's consolidated financial statements as specified by OMB Circular A-136.

## B. Basis of Accounting

The Department's FY 2015 financial statements include the accounts and transactions of FHA, Ginnie Mae, and its grant, subsidy and loan programs.

The financial statements are presented in accordance with the OMB Circular No. A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual and budgetary bases of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds.

The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies payable in accordance with the Cash Management Improvement Act of 1990. Except for PIH programs, HUD's disbursement of funds for these purposes are not considered advance payments but are viewed as sound cash management between the Department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three-day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

## C. Use of Estimates

The preparation of the principal financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

To estimate the Allowance for Subsidy (AFS) associated with loans receivable and related foreclosed property and the Liability for Loan Guarantees (LLG), the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

The Department relies on estimates by PIH to determine the amount of funding needs for PHAs and Indian Housing Authorities (IHAs) under the PIH Housing Choice Voucher Program. Under the Department's cash management program, PIH evaluates the program needs of PHAs/IHAs to minimize excess cash balances maintained by these entities. The Department implemented a cash management policy in calendar year 2012 over the voucher program given its significant funding levels and the excess cash balances which PHAs/IHAs had accumulated over the years. The cash reserves, referred to as net restricted assets (NRA) are monitored by the Department and estimated by HUD on a recurring basis. The NRA balances are the basis for PIH prepayments recorded by the Department in its comparative financial statements for FY 2015 and FY 2014.

In response to the OIG finding, HUD implemented a grant accrual policy on September 4, 2014, and restated its FY 2013 financial statements. The Department continues to refine its methodologies and the underlying assumptions used by program offices to develop the estimates. Described below are the methodologies used by our major program offices which are CPD, PIH and the Office of Housing.

- CPD developed a statistical model for its grant programs based on recent historical data in the Integrated Disbursement Information System (IDIS). Utilizing activity type, funding and disbursement information in IDIS, CPD was able to extrapolate the relationship between accrued expenses over a specified period of time and when the services are generally billed to the government by the grantees.

- PIH administrative programs use disbursement data from the Department's Electronic Line of Credit Control Systems (ELOCCS) and evaluated it for reasonableness based on unaudited data using the Financial Subsystem for Public Housing (FASS-PIH).

- The Office of Housing, similar to the PIH administered programs, utilizes disbursement data recorded in ELOCCS over a 12 month period and assumes a 30 day processing time from when the entity incurs eligible expenses and the associated drawdown of funds by the grantee occurs.

## D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990 (FCRA), which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular A-11, Preparation, Execution, and Submission of the Budget, Part 5, Federal Credit Programs defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting.

The FCRA establishes the use of the program, financing, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991, (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991, (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there are negative subsidies from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury General Fund. The FHA general fund receipt accounts of the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by FY 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's General Fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

## E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

### *Appropriations for Grant and Subsidy Programs*

HUD receives both annual and multi-year appropriations and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

### *Ginnie Mae Fees*

Fees received for Ginnie Mae's guaranty of MBS are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned as issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers.

## F. Appropriations and Moneys Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI and SRI funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the Liability for Loan Guarantee or the Allowance for Subsidy when collected.

## G. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited to Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

In connection with an Accelerated Claims Disposition Demonstration program (the 601 program), FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. FHA uses the equity method of accounting to measure the value of its investments in these entities.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

## H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, Purchase Money Mortgages (PMM) and notes related to partial claims. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the FCRA and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991, (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991, (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, and net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, and net of cost of sales.

## I. Borrowings

As further discussed in Note 14, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

## J. Liability for Loan Guarantees

The net potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR).

The LLG is calculated as the net present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property costs to maintain foreclosed properties less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes.

HUD records loss estimates for its single family LLR and multifamily LLR mortgage insurance programs operated through FHA. FHA records loss estimates for its single family programs to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data, and adjusts the estimates to incorporate management assumptions about current economic factors. FHA records loss estimates for its multifamily programs to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

Ginnie Mae also establishes loss reserves to the extent management believes issuer defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures.

## K. Full Cost Reporting

Beginning in FY 1998, SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies.

## L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

## M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes one percent of pay and matches any employee contribution up to five percent of an individual's basic pay. Under CSRS, employees can contribute up to $16,500 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report

CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

## N. Fiduciary Funds

Ginnie Mae has immaterial fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-Federal entities have an ownership interest. Fiduciary assets are not assets of Ginnie Mae or the Federal Government. The fiduciary assets held by Ginnie Mae include unclaimed MBS Certificate Holders payments and escrow funds held in trust. The amount of escrows reported by Ginnie Mae for FY 2015 and FY 2014 were 89 million and 88 million, respectively.

# Note 3: Entity and Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S. Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2015 and 2014 were as follows (dollars in millions):

| **Description** | **2015** | | | **2014** | | |
|---|---|---|---|---|---|---|
| | Entity | Non-Entity | Total | Entity | Non-Entity | Total |
| Intragovernmental | | | | | | |
| Fund Balance with Treasury (Note 4) | $ 94,651 | $ 40 | $ 94,691 | $ 121,668 | $ 35 | $ 121,703 |
| Investments (Note 5) | 27,677 | - | 27,677 | 6,529 | - | 6,529 |
| Accounts Receivable, Net (Note 6) | - | - | - | - | - | - |
| Other Assets (Note 11) | 9 | - | 9 | 34 | - | 34 |
| Total Intragovernmental Assets | $ 122,337 | $ 40 | $ 122,377 | $ 128,231 | $ 35 | $ 128,266 |
| Cash and Other Monetary Assets (Note 4) | - | 45 | 45 | - | 37 | 37 |
| Investments (Note 5) | 31 | - | 31 | 41 | - | 41 |
| Accounts Receivable, Net (Note 6) | 686 | 94 | 780 | 1,845 | 42 | 1,887 |
| Loan Receivables and Related Foreclosed Property, Net (Note 7) | 14,292 | 133 | 14,425 | 10,829 | 39 | 10,868 |
| Other Non-Credit Reform Loans Receivable, Net (Note 8) | 3,227 | - | 3,227 | 2,809 | - | 2,809 |
| General Property, Plant and Equipment, Net (Note 9) | 329 | - | 329 | 308 | - | 308 |
| PIH Prepayments (Note 10) | 672 | - | 672 | 423 | - | 423 |
| Other Assets (Note 11) | 8 | 37 | 45 | 7 | 41 | 48 |
| **Total Assets** | **$ 141,582** | **$ 349** | **$ 141,931** | **$ 144,493** | **$ 194** | **$ 144,687** |

## Note 4: Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2015 and 2014 were as follows (dollars in millions):

| Description | 2015 | 2014 |
|---|---|---|
| Revolving Funds | $ 40,170 | $ 62,861 |
| Appropriated Funds | 53,241 | 57,780 |
| Trust Funds | 14 | 13 |
| Other | 1,266 | 1,049 |
| **Total - Fund Balance** | **$ 94,691** | **$ 121,703** |

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since Federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

HUD's fund balances with the U.S. Treasury as reflected in the entity's general ledger as of September 30, 2015 and 2014 were as follows (dollars in millions):

**Status of Resources - 2015**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Status of Total Resources | Fund Balance | Other Authority | Total Resources |
|---|---|---|---|---|---|---|---|---|
| FHA | $ 3,565 | $ 47,154 | $ 3,050 | $ (15) | $ 53,754 | $ 39,057 | $ 14,697 | $ 53,754 |
| Ginnie Mae | 6 | 14,066 | 584 | - | 14,656 | 1,733 | 12,923 | 14,656 |
| Section 8 Rental Assistance | 698 | 92 | 8,902 | - | 9,692 | 9,692 | - | 9,692 |
| PIH Loans and Grants | 113 | 43 | 4,711 | - | 4,867 | 4,867 | - | 4,867 |
| Homeless Assistance Grants | 2,086 | 539 | 2,536 | - | 5,161 | 5,161 | - | 5,161 |
| Section 202/811 | 253 | 188 | 1,964 | - | 2,405 | 2,405 | - | 2,405 |
| CDBG | 9,021 | 8 | 12,495 | - | 21,524 | 21,524 | - | 21,524 |
| Home | 237 | 27 | 3,184 | - | 3,448 | 3,448 | - | 3,448 |
| Section 235/236 | 31 | 32 | 951 | - | 1,014 | 1,014 | - | 1,014 |
| All Other | 594 | 1,175 | 3,665 | (56) | 5,378 | 5,366 | 12 | 5,378 |
| **Total** | **$ 16,604** | **$ 63,324** | **$ 42,042** | **$ (71)** | **$ 121,899** | **$ 94,267** | **$ 27,632** | **$ 121,899** |

**Status of Resources Covered by Fund Balance**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Fund Balance | Non-Budgetary: Suspense, Deposit and Receipt Accounts | Total Fund Balance |
|---|---|---|---|---|---|---|---|
| FHA | $ 3,565 | $ 32,457 | $ 3,050 | $ (15) | 39,057 | $ - | $ 39,057 |
| Ginnie Mae | 6 | 1,143 | 584 | - | 1,733 | 409 | 2,142 |
| Section 8 Rental Assistance | 698 | 92 | 8,902 | - | 9,692 | - | 9,692 |
| PIH Loans and Grants | 113 | 43 | 4,711 | - | 4,867 | - | 4,867 |
| Homeless Assistance Grants | 2,086 | 539 | 2,536 | - | 5,161 | - | 5,161 |
| Section 202/811 | 253 | 188 | 1,964 | - | 2,405 | - | 2,405 |
| CDBG | 9,021 | 8 | 12,495 | - | 21,524 | - | 21,524 |
| Home | 237 | 27 | 3,184 | - | 3,448 | - | 3,448 |
| Section 235/236 | 31 | 32 | 951 | - | 1,014 | - | 1,014 |
| All Other | 594 | 1,163 | 3,665 | (56) | 5,366 | 15 | 5,381 |
| **Total** | **$ 16,604** | **$ 35,692** | **$ 42,042** | **$ (71)** | **$ 94,267** | **$ 424** | **$ 94,691** |

**Status of Resources Covered by Other Authority**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Permanent Indefinite Authority | Investment Authority | Borrowing Authority |
|---|---|---|---|---|---|---|---|
| FHA | $ - | $ 14,697 | $ - | $ - | $ - | $ 14,697 | $ - |
| Ginnie Mae | - | 12,923 | - | - | - | 12,923 | - |
| Section 8 Rental Assistance | - | - | - | - | - | - | - |
| PIH Loans and Grants | - | - | - | - | - | - | - |
| Section 202/811 | - | - | - | - | - | - | - |
| Section 235/236 | - | - | - | - | - | - | - |
| All Other | - | 12 | - | - | - | - | 12 |
| **Total** | **$ -** | **$ 27,632** | **$ -** | **$ -** | **$ -** | **$ 27,620** | **$ 12** |

**Status of Receipt Account Balances**

| Description | Fund Balance |
|---|---|
| FHA | $ - |
| Ginnie Mae | $ 409 |
| Section 8 Rental Assistance | - |
| All Other | 15 |
| **Total** | **$ 424** |

**Breakdown of All Other**

| Description | Fund Balance |
|---|---|
| All Other HUD suspense/deposit funds | $ 15 |
| | - |
| **Total** | **$ 15** |

**Status of Resources - 2014**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Status of Total Resources | Fund Balance | Other Authority | Total Resources |
|---|---|---|---|---|---|---|---|---|
| FHA | $ 13,579 | $ 40,142 | $ 2,816 | $ (8) | $ 56,529 | $ 50,158 | $ 6,371 | $ 56,529 |
| Ginnie Mae | 4 | 12,777 | 546 | (2) | 13,325 | 13,175 | 150 | 13,325 |
| Section 8 Rental Assistance | 687 | 49 | 8,865 | - | 9,601 | 9,601 | - | 9,601 |
| PIH Loans and Grants | 116 | 33 | 4,871 | - | 5,020 | 5,020 | - | 5,020 |
| Homeless Assistance Grants | 2,039 | 422 | 2,605 | - | 5,066 | 5,066 | - | 5,066 |
| Section 202/811 | 324 | 246 | 2,303 | - | 2,873 | 2,873 | - | 2,873 |
| CDBG | 12,158 | 19 | 12,861 | - | 25,038 | 25,038 | - | 25,038 |
| Home | 177 | 23 | 3,568 | - | 3,768 | 3,768 | - | 3,768 |
| Section 235/236 | 34 | 7 | 1,216 | - | 1,257 | 1,072 | 185 | 1,257 |
| All Other | 557 | 1,108 | 3,948 | (54) | 5,559 | 5,547 | 12 | 5,559 |
| **Total** | **$ 29,675** | **$ 54,826** | **$ 43,599** | **$ (64)** | **$ 128,036** | **$ 121,318** | **$ 6,718** | **$ 128,036** |

**Status of Resources Covered by Fund Balance**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Fund Balance | Non-Budgetary: Suspense, Deposit and Receipt Accounts | Total Fund Balance |
|---|---|---|---|---|---|---|---|
| FHA | $ 13,579 | $ 33,771 | $ 2,816 | $ (8) | 50,158 | $ 74 | $ 50,232 |
| Ginnie Mae | 4 | 12,627 | 546 | (2) | 13,175 | 295 | 13,470 |
| Section 8 Rental Assistance | 687 | 49 | 8,865 | - | 9,601 | - | 9,601 |
| PIH Loans and Grants | 116 | 33 | 4,871 | - | 5,020 | - | 5,020 |
| Homeless Assistance Grants | 2,039 | 422 | 2,605 | - | 5,066 | - | 5,066 |
| Section 202/811 | 324 | 246 | 2,303 | - | 2,873 | - | 2,873 |
| CDBG | 12,158 | 19 | 12,861 | - | 25,038 | - | 25,038 |
| Home | 177 | 23 | 3,568 | - | 3,768 | - | 3,768 |
| Section 235/236 | 19 | 5 | 1,048 | - | 1,072 | - | 1,072 |
| All Other | 557 | 1,096 | 3,948 | (54) | 5,547 | 16 | 5,563 |
| **Total** | **$ 29,660** | **$ 48,291** | **$ 43,431** | **$ (64)** | **$ 121,318** | **$ 385** | **$ 121,703** |

**Status of Resources Covered by Other Authority**

| Description | Unobligated Available | Unobligated Unavailable | Obligated Not Yet Disbursed | Unfilled Customer Orders | Permanent Indefinite Authority | Investment Authority | Borrowing Authority |
|---|---|---|---|---|---|---|---|
| FHA | $ - | $ 6,371 | $ - | $ - | $ - | $ 6,371 | $ - |
| Ginnie Mae | - | 150 | - | - | - | 150 | - |
| Section 8 Rental Assistance | - | - | - | - | - | - | - |
| PIH Loans and Grants | - | - | - | - | - | - | - |
| Section 202/811 | - | - | - | - | - | - | - |
| Section 235/236 | 15 | 2 | 168 | - | 185 | - | - |
| All Other | - | 12 | - | - | - | - | 12 |
| **Total** | **$ 15** | **$ 6,535** | **$ 168** | **$ -** | **$ 185** | **$ 6,521** | **$ 12** |

**Status of Receipt Account Balances**

| Description | Fund Balance |
|---|---|
| FHA | $ 74 |
| Ginnie Mae | $ 295 |
| Section 8 Rental Assistance | - |
| All Other | 16 |
| **Total** | **$ 385** |

**Breakdown of All Other**

| Description | Fund Balance |
|---|---|
| All Other HUD suspense/deposit funds | $ 16 |
| | - |
| **Total** | **$ 16** |

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

## Note 5: Cash and Other Monetary Assets

Cash and other monetary assets consist of cash that is received by the Ginnie Mae's Master Subservicers, but has not yet been transmitted to Ginnie Mae. As of September 30, 2015 and 2014, deposits in transit were $45 million and $37 million, respectively.

## Note 6: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates established by the U.S. Treasury as of September 30, 2015 were 0.01 percent. During FY 2014, interest rate was 0.01 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2015 and 2014 were as follows (dollars in millions):

| | Cost | Amortized (Premium)/ Discount, Net | Accrued Interest | Net Investments | Market Value |
|---|---|---|---|---|---|
| **FY 2015** | $ 27,654 | $ 10 | $ 13 | $ 27,677 | $ 27,687 |
| **FY 2014** | $ 6,521 | $ 1 | $ 7 | $ 6,529 | $ 6,530 |

### Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program and Risk Sharing Debentures as discussed in Note 2G. The following table presents financial data on FHA's investments in Risk Sharing Debentures as of September 30, 2015 and 2014 (dollars in millions):

| | Beginning Balance | Net Acquisition | Share of Earnings or Losses | Return of Investment | Redeemed | Ending Balance |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| 601 Program | $ 41 | $ 19 | $ - | $ - | $ (29) | $ 31 |
| Risk Sharing Debentures | - | - | - | - | - | - |
| Total | **$ 41** | **$ 19** | **$ -** | **$ -** | **$ (29)** | **$ 31** |
| **2014** | | | | | | |
| 601 Program | $ 56 | $ - | $ - | $ - | $ (15) | $ 41 |
| Risk Sharing Debentures | - | - | - | - | - | - |
| Total | **$ 56** | **$ -** | **$ -** | **$ -** | **$ (15)** | **$ 41** |

## Note 7: Accounts Receivable (Net)

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology is the total delinquencies greater than 90 days plus/or minus economic stress factors. The economic stress factors include payoff, foreclosure, bankruptcy and hardship of the project. Adjustments to the bond refunding allowance for loss account are done every quarter to ensure they are deemed to be necessary.

For Section 236 excess rental income, the allowance for loss consists of 10 percent of the receivables with a repayment plan plus 95 percent of the receivables without a repayment plan. Adjustments to the excess rental income allowance for loss account are done biannually to ensure they are deemed necessary.

### Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, a year-end settlement process to determine actual amounts due is no longer applicable. Effective January 1, 2012, PIH reinstated the year-end settlement process for the HCV Program in accordance with its cash management policies. However, as reported by the OIG's Internal Control Report, the results of PIH's cash reconciliation reviews are not reflected in the Department's financial statements. The PIH reviews have not been completed on a timely basis and the required standard general ledger transactions have not been recorded in the Department's accounting systems.

### Bond Refunding

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining one-half is returned to HUD. As of September 30, 2015 and 2014, HUD was due $14 million and $15 million, respectively.

## Section 236 Excess Rental Income

The Excess Rental Income receivable account represents the difference between the amounts that projects reported to HUD's Lockbox as owing (in use prior to August 2008) and the actual amount collected. On a monthly basis, projects financed under Section 236 of the National Housing Act must report the amount of rent collected in excess of basic rents and remit those funds to the Department. Unless written authorization is given by the Department to retain the excess rental income, the difference must be remitted to HUD. Generally, the individual amounts owing under Excess Rental Income receivables represents monthly reports remitted without payment. After 2008, any remittances owed by individuals are collected through PAY.GOV as well as the required HUD documents.

## Other Receivables

Sustained audit costs include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2015 and 2014 (dollars in millions):

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Description | Gross Accounts Receivable | Allowance for Loss | Total, Net | Gross Accounts Receivable | Allowance for Loss | Total, Net |
| Intragovernmental | $ - | $ - | $ - | $ - | $ - | $ - |
| Public | | | | | | |
| Sustained Audit Costs | $ 158 | $ - | $ 158 | $ 64 | $ - | $ 64 |
| Bond Refundings | 13 | - | 13 | 15 | - | 15 |
| Section 8 Settlements | 17 | - | 17 | 4 | 1 | 5 |
| Section 236 Excess Rental Income | 5 | (1) | 4 | 5 | (1) | 4 |
| Other Receivables: | - | | | - | | |
| FHA | 453 | (322) | 131 | 2,328 | (868) | 1,460 |
| Ginnie Mae | 649 | (241) | 408 | 678 | (360) | 318 |
| Other Receivables | 51 | (2) | 49 | 24 | (3) | 21 |
| **Total Accounts Receivable** | **$ 1,346** | **$ (566)** | **$ 780** | **$ 3,118** | **$ (1,231)** | **$ 1,887** |

## Note 8: Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

The FHA insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans.

The allowance for loan losses for the Flexible Subsidy Fund and the Housing for the Elderly and Disabled Program is determined as follows:

### Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: (1) loss rate for loans written-off, (2) loss rate for restructured loans, (3) loss rate for loans paid-off, and (4) loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts 1 and 3 are based on actual historical data derived from the previous three years. The loss rates for parts 2 and 4 are provided by or agreed to by the Housing Office of Evaluation.

### Housing for the Elderly and Disabled Program

There are three parts to the calculation of allowance for loss: (1) loss rate for loans issued a Foreclosure Hearing Letter, (2) loss rate for the estimated number of foreclosures in the current year, and (3) loss rate for loans delinquent for more than 180 days. Loss rates for parts 1 and 2 are determined by actual historical data from the previous five years. Loss rate for part 3 is determined or approved by the Housing Office of Evaluation.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the FCRA and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for FY 2015 and FY 2014:

## A. List of HUD's Direct Loan and/or Guarantee Programs:

1. FHA
   a) MMI/CMHI Direct Loan Program
   b) GI/SRI Direct Loan Program
   c) MMI/CMHI Loan Guarantee Program
   d) GI/SRI Loan Guarantee Program
   e) H4H Loan Guarantee Program
   f) HECM Program
2. Housing for the Elderly and Disabled
3. All Other
   a) CPD Revolving Fund
   b) Flexible Subsidy Fund
   c) Section 108 Loan Guarantees
   d) Indian Housing Loan Guarantee Fund
   e) Loan Guarantee Recovery Fund
   f) Native Hawaiian Housing Loan Guarantee Fund
   g) Title VI Indian Housing Loan Guarantee Fund
   h) Green Retrofit Direct Loan Program
   i) Emergency Homeowners' Loan Program

## B. Direct Loans Obligated Pre-1992 (Allowance for Loss Method)

(dollars in millions):

| | 2015 | | | | |
|---|---|---|---|---|---|
| **Direct Loan Programs** | **Loans Receivable, Gross** | **Interest Receivable** | **Allowance for Loan Losses** | **Foreclosed Property** | **Value of Assets Related to Direct Loans, Net** |
| FHA | | | | | |
| a) MMI/CHMI Direct Loan Program | $ - | $ - | $ - | $ - | - |
| b) GI/SRI Direct Loan Program | 14 | 12 | (6) | - | 20 |
| Housing for the Elderly and Disabled | 1,412 | 15 | (11) | - | 1,416 |
| All Other | | | - | | |
| a) CPD Revolving Fund | 5 | - | (5) | 2 | 2 |
| b) Flexible Subsidy Fund | 428 | 72 | (39) | - | 461 |
| **Total** | **$ 1,859** | **$ 99** | **$ (61)** | **$ 2** | **$ 1,899** |

| Direct Loan Programs | 2014 Loans Receivable, Gross | Interest Receivable | Allowance for Loan Losses | Foreclosed Property | Value of Assets Related to Direct Loans, Net |
|---|---|---|---|---|---|
| FHA | | | | | |
| a) MMI/CHMI Direct Loan Program | $ - | $ - | $ (6) | $ - | (6) |
| b) GI/SRI Direct Loan Program | 14 | 12 | (7) | - | 19 |
| Housing for the Elderly and Disabled | 1,778 | 19 | (10) | - | 1,787 |
| All Other | | | | | |
| a) CPD Revolving Fund | 5 | - | (5) | 2 | 2 |
| b) Flexible Subsidy Fund | 451 | 82 | (32) | - | 501 |
| **Total** | **$ 2,248** | **$ 113** | **$ (60)** | **$ 2** | **$ 2,303** |

## C. Direct Loans Obligated Post-1991 (dollars in millions):

| Direct Loan Programs | 2015 Loans Receivable, Gross | Interest Receivable | Allowance for Loan Losses | Foreclosed Property | Value of Assets Related to Direct Loans |
|---|---|---|---|---|---|
| FHA | | | | | |
| a) MMI/CHMI Direct Loan Program | $ - | $ - | $ (3) | $ - | (3) |
| b) GI/SRI Direct Loan Program | 103 | - | 34 | - | 137 |
| All Other | | | | | |
| a) Green Retrofit Program | $ 63 | $ 1 | $ (66) | $ - | $ (2) |
| b) Emergency Homeowners' Loan Program | 50 | - | (50) | - | - |
| c) EHLP Receipt Account | 133 | - | - | - | 133 |
| **Total** | **$ 349** | **$ 1** | **$ (85)** | **$ -** | **$ 265** |

| Direct Loan Programs | 2014 Loans Receivable, Gross | Interest Receivable | Allowance for Loan Losses | Foreclosed Property | Value of Assets Related to Direct Loans |
|---|---|---|---|---|---|
| FHA | | | | | |
| a) MMI/CHMI Direct Loan Program | $ - | $ - | $ - | $ - | - |
| b) GI/SRI Direct Loan Program | - | - | - | - | - |
| All Other | $ 70 | $ 1 | $ (66) | $ - | $ 5 |
| a) Green Retrofit Program | 82 | - | (81) | - | 1 |
| b) Emergency Homeowners' Loan Program | 39 | - | - | - | 39 |
| **Total** | **$ 191** | **$ 1** | **$ (147)** | **$ -** | **$ 45** |

## D. Total Amount of Direct Loans Disbursed (Post-1991) (dollars in millions):

| Direct Loan Programs | Current Year | Prior Year |
|---|---|---|
| FHA Risk Sharing Program | $ 103 | $ - |
| All Other | | |
| a) Green Retrofit Program | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | 5 |
| **Total** | **$ 103** | **$ 5** |

## E. Subsidy Expense for Direct Loans by Program and Component (dollars in millions):

### E1. Subsidy Expense for New Direct Loans Disbursed (dollars in millions):

| | 2015 | | | | |
|---|---|---|---|---|---|
| **Direct Loan Programs** | **Interest Differential** | **Defaults** | **Fees and Other Collections** | **Other** | **Total** |
| FHA Risk Sharing Program | $ (5) | $ - | $ (3) | $ (1) | $ (9) |
| All Other | | | | | |
| a) Green Retrofit Program | $ - | $ - | $ - | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | - | - | - | - |
| **Total** | **$ (5)** | **$ -** | **$ (3)** | **$ (1)** | **$ (9)** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| **Direct Loan Programs** | **Interest Differential** | **Defaults** | **Fees and Other Collections** | **Other** | **Total** |
| FHA Risk Sharing Program | $ - | $ - | $ - | $ - | $ - |
| All Other | | | | | |
| a) Green Retrofit Program | $ - | $ - | $ - | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | - | - | 5 | 5 |
| **Total** | **$ -** | **$ -** | **$ -** | **$ 5** | **$ 5** |

### E2. Modifications and Re-estimates (dollars in millions):

| | 2015 | | | |
|---|---|---|---|---|
| **Direct Loan Programs** | **Total Modification** | **Interest Rate Re-estimates** | **Technical Re-stimates** | **Total Re-estimates** |
| FHA Risk Sharing Program | $ - | $ - | $ - | $ - |
| All Other | | | | |
| a) Green Retrofit Program | $ - | $ - | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | - | - | - |
| **Total** | **$ -** | **$ -** | **$ -** | **$ -** |

| | 2014 | | | |
|---|---|---|---|---|
| **Direct Loan Programs** | **Total Modification** | **Interest Rate Re-estimates** | **Technical Re-stimates** | **Total Re-estimates** |
| FHA Risk Sharing Program | $ - | $ - | $ - | $ - |
| All Other | | | | |
| a) Green Retrofit Program | $ - | $ - | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | - | - | - |
| **Total** | **$ -** | **$ -** | **$ -** | **$ -** |

### E3. Total Direct Loan Subsidy Expense (dollars in millions):

| **Direct Loan Programs** | **Current Year** | **Prior Year** |
|---|---|---|
| FHA Risk Sharing Program | $ (8) | $ - |
| All Other | | |
| a) Green Retrofit Program | $ - | $ - |
| b) Emergency Homeowners' Loan Program | - | 5 |
| **Total** | **$ (8)** | **$ 5** |

## F. Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans

| | 2015 | | | | |
|---|---|---|---|---|---|
| Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
| FHA Risk Sharing Program | (6.1%) | 0.5% | (3.9%) | (1.3%) | (10.8%) |
| All Other | | | | | |
| a) Green Retrofit Program | 41.0% | 42.7% | 0.0% | (1.3%) | 82.3% |
| b) Emergency Homeowners' Loan Program | 0.0% | 0.0% | 0.0% | 97.7% | 97.7% |

| | 2014 | | | | |
|---|---|---|---|---|---|
| Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
| FHA Risk Sharing Program | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| All Other | | | | | |
| a) Green Retrofit Program | 41.0% | 42.7% | 0.0% | (1.3%) | 82.3% |
| b) Emergency Homeowners' Loan Program | 0.0% | 0.0% | 0.0% | 97.7% | 97.7% |

## G. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) (dollars in millions):

| Beginning Balance, Changes, and Ending Balance | FY 2015 | FY 2014 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ 152 | $ 151 |
| Add: subsidy expense for direct loans disbursed during the reporting years by component: | - | - |
| a) Interest rate differential costs | (5) | - |
| b) Default costs (net of recoveries) | - | - |
| c) Fees and other collections | (3) | - |
| d) Other subsidy costs | (1) | 5 |
| **Total of the above subsidy expense components** | (9) | 5 |
| Adjustments: | | |
| a) Loan modifications | - | - |
| b) Fees received | - | - |
| c) Foreclosed properties acquired | - | - |
| d) Loans written off | (31) | (5) |
| e) Subsidy allowance amortization | 1 | 1 |
| f) Other | (4) | - |
| **Ending balance of the subsidy cost allowance before re-estimates** | 109 | 152 |
| Add or subtract subsidy re-estimates by component: | | |
| a) Interest rate re-estimate | - | (5) |
| b) Technical/default re-estimate | (24) | - |
| **Total of the above re-estimate components** | (24) | (5) |
| Ending balance of the subsidy cost allowance | **$ 85** | **$ 147** |

## H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

| 2015 | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Allowance for Loan and Interest Losses | Foreclosed Property, Net | Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net |
|---|---|---|---|---|---|
| FHA | | | | | |
| MMI/CMHI | | | | | |
| a) Single Family | $ 22 | $ - | $ (7) | $ 7 | $ 22 |
| b) Multi Family | - | - | - | - | - |
| c) HECM | - | - | - | - | - |
| GI/SRI | | | | | |
| a) Single Family | $ - | $ - | $ (4) | $ 9 | $ 5 |
| b) Multi Family | 1,946 | 234 | (808) | 1 | 1,373 |
| c) HECM | 4 | 2 | (5) | (2) | (1) |
| **Total** | **$ 1,972** | **$ 236** | **$ (824)** | **$ 15** | **$ 1,399** |

| 2014 | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Allowance for Loan and Interest Losses | Foreclosed Property, Net | Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net |
|---|---|---|---|---|---|
| FHA | | | | | |
| MMI/CMHI | | | | | |
| a) Single Family | $ 21 | $ - | $ (9) | $ 11 | $ 23 |
| b) Multi Family | - | - | - | - | - |
| c) HECM | - | - | - | - | - |
| GI/SRI | | | | | |
| a) Single Family | $ - | $ - | $ (4) | $ 9 | $ 5 |
| b) Multi Family | 2,078 | 231 | (857) | 1 | 1,453 |
| c) HECM | 5 | 2 | (2) | (2) | 3 |
| **Total** | **$ 2,104** | **$ 233** | **$ (872)** | **$ 19** | **$ 1,484** |

## I. Defaulted Guaranteed Loans from Post-1991 Guarantees (dollars in millions):

| 2015 | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Allowance for Subsidy Cost (Present Value) | Foreclosed Property, Gross | Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net |
|---|---|---|---|---|---|
| FHA | | | | | |
| MMI/CMHI | | | | | |
| a) Single Family | $ 8,805 | $ - | $ (7,050) | $ 3,131 | $ 4,886 |
| b) Multi Family | - | - | - | - | - |
| c) HECM | 2,182 | 992 | (1,008) | 11 | 2,177 |
| GI/SRI | | | | | |
| a) Single Family | $ 292 | $ 1 | $ (233) | $ 94 | $ 154 |
| b) Multi Family | 655 | - | (272) | 1 | 384 |
| c) HECM | 3,107 | 1,517 | (1,495) | 101 | 3,230 |
| All Other | - | - | - | - | - |
| a) Indian Housing Loan Guarantee | - | - | - | 31 | 31 |
| b) Native Hawaiian Housing Loan Guarantee | - | - | - | (1) | (1) |
| **Total** | **$ 15,041** | **$ 2,510** | **$ (10,058)** | **$ 3,368** | **$ 10,861** |

| 2014 | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Allowance for Subsidy Cost (Present Value) | Foreclosed Property, Gross | Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net |
|---|---|---|---|---|---|
| FHA | | | | | |
| MMI/CMHI | | | | | |
| a) Single Family | $ 5,247 | $ - | $ (4,193) | $ 2,437 | $ 3,491 |
| b) Multi Family | - | - | - | - | - |
| c) HECM | 996 | 371 | (598) | 5 | 774 |
| GI/SRI | | | | | |
| a) Single Family | $ 176 | $ 1 | $ (139) | $ 73 | $ 111 |
| b) Multi Family | 818 | - | (319) | 1 | 500 |
| c) HECM | 2,510 | 1,192 | (1,648) | 80 | 2,134 |
| All Other | - | - | - | - | - |
| a) Indian Housing Loan Guarantee | - | - | - | 26 | 26 |
| b) Native Hawaiian Housing Loan Guarantee | - | - | - | 1 | 1 |
| **Total** | **$ 9,747** | **$ 1,564** | **$ (6,897)** | **$ 2,623** | **$ 7,037** |

| | **2015** | **2014** |
|---|---|---|
| Total Credit Program Receivables and Related Foreclosed Property, Net | $14,425 | $10,868 |

# J. Guaranteed Loans Outstanding (dollars in millions):

## J1. Guaranteed Loans Outstanding (dollars in millions):

| | 2015 | |
|---|---|---|
| Loan Guarantee Programs | Outstanding Principal, Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
| FHA Programs | | |
| a) MMI/CMHI Funds | $ 1,168,560 | $ 1,065,896 |
| b) GI/SRI Funds | 123,399 | 112,063 |
| c) H4H Progam | 98 | 92 |
| All Other | 7,321 | 7,317 |
| **Total** | **$ 1,299,378** | **$ 1,185,368** |

| | 2014 | |
|---|---|---|
| Loan Guarantee Programs | Outstanding Principal, Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
| FHA Programs | | |
| a) MMI/CMHI Funds | $ 1,168,919 | $ 1,075,208 |
| b) GI/SRI Funds | 121,597 | 110,436 |
| c) H4H Progam | 109 | 104 |
| All Other | 6,338 | 6,333 |
| **Total** | **$ 1,296,963** | **$ 1,192,081** |

## J2. Home Equity Conversion Mortgage Loans Outstanding (dollars in millions):

| | | Cumulative | |
|---|---|---|---|
| Loan Guarantee Programs | 2015 Current Year Endorsements | Current Outstanding Balance | Maximun Potential Liability |
| FHA Programs | $ 15,890 | $ 105,471 | $ 149,645 |

| | | Cumulative | |
|---|---|---|---|
| Loan Guarantee Programs | 2014 Current Year Endorsements | Current Outstanding Balance | Maximun Potential Liability |
| FHA Programs | $ 13,473 | $ 105,523 | $ 149,885 |

## J3. New Guaranteed Loans Disbursed (dollars in millions):

| | 2015 | |
|---|---|---|
| **Loan Guarantee Programs** | **Outstanding Principal, Guaranteed Loans, Face Value** | **Amount of Outstanding Principal Guaranteed** |
| FHA Programs | | |
| a) MMI/CMHI Funds | $ 213,125 | $ 211,322 |
| b) GI/SRI Funds | 11,366 | 11,311 |
| c) H4H Program | - | - |
| All Other | 1,008 | 1,008 |
| **Total** | **$ 225,499** | **$ 223,641** |

| | 2014 | |
|---|---|---|
| **Loan Guarantee Programs** | **Outstanding Principal, Guaranteed Loans, Face Value** | **Amount of Outstanding Principal Guaranteed** |
| FHA Programs | | |
| a) MMI/CMHI Funds | $ 135,235 | $ 133,955 |
| b) GI/SRI Funds | 14,227 | 14,147 |
| c) H4H Program | - | - |
| All Other | 656 | 656 |
| **Total** | **$ 150,118** | **$ 148,758** |

## K. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

| | 2015 | | |
|---|---|---|---|
| **Loan Guarantee Programs** | **Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims** | **Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)** | **Total Liabilities For Loan Guarantees** |
| FHA Programs | $ 7 | $ 13,998 | $ 14,005 |
| All Other | - | 289 | 289 |
| **Total** | **$ 7** | **$ 14,287** | **$ 14,294** |

| | 2014 | | |
|---|---|---|---|
| **Loan Guarantee Programs** | **Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims** | **Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)** | **Total Liabilities For Loan Guarantees** |
| FHA Programs | $ 9 | $ 31,494 | $ 31,503 |
| All Other | - | 276 | 276 |
| **Total** | **$ 9** | **$ 31,770** | **$ 31,779** |

# L. Subsidy Expense for Post-1991 Guarantees:

## L1. Subsidy Expense for Loan Guarantees (dollars in millions):

| Loan Guarantee Programs | 2015 Endorsement Amount | Default Component | Fees Component | Other Component | Subsidy Amount |
|---|---|---|---|---|---|
| FHA | | | | | |
| a) MMI/CMHI Funds, Excluding HECM | $ 213,125 | $ 5,684 | $ (18,706) | $ - | $ (13,022) |
| b) MMI/CMHI Funds, HECM | 15,890 | 991 | (1,055) | - | (64) |
| c) GI/SRI Funds | 11,366 | 191 | (703) | - | (512) |
| d) H4H Program | - | - | - | - | - |
| All Other | - | 8 | - | - | 8 |
| **Total** | **$ 240,381** | **$ 6,874** | **$ (20,464)** | **$ -** | **$ (13,590)** |

| Loan Guarantee Programs | 2014 Endorsement Amount | Default Component | Fees Component | Other Component | Subsidy Amount |
|---|---|---|---|---|---|
| FHA | | | | | |
| a) MMI/CMHI Funds, Excluding HECM | $ 135,235 | $ 3,953 | $ (13,747) | $ - | $ (9,794) |
| b) MMI/CMHI Funds, HECM | 13,473 | 878 | (934) | - | (56) |
| c) GI/SRI Funds | 14,227 | 263 | (871) | - | (608) |
| d) H4H Program | - | - | - | - | - |
| All Other | - | 7 | - | - | 7 |
| **Total** | **$ 162,935** | **$ 5,101** | **$ (15,552)** | **$ -** | **$ (10,451)** |

## L2. Modification and Re-estimates (dollars in millions):

| Loan Guarantee Programs | 2015 Total Modifications | Interest Rate Re-estimates | Technical Re-estimates | Total Re-estimates |
|---|---|---|---|---|
| FHA | | | | |
| a) MMI/CMHI Funds | $ - | $ - | $ (2,248) | $ (2,248) |
| b) GI/SRI Funds | - | - | (1,088) | (1,088) |
| All Other | - | - | (12) | (12) |
| **Total** | **$ -** | **$ -** | **$ (3,348)** | **$ (3,348)** |

| Loan Guarantee Programs | 2014 Total Modifications | Interest Rate Re-estimates | Technical Re-estimates | Total Re-estimates |
|---|---|---|---|---|
| FHA | | | | |
| a) MMI/CMHI Funds | $ - | $ - | $ 3,380 | $ 3,380 |
| b) GI/SRI Funds | - | - | 544 | 544 |
| All Other | - | - | 94 | 94 |
| **Total** | **$ -** | **$ -** | **$ 4,018** | **$ 4,018** |

L3. Total Loan Guarantee Subsidy Expense (dollars in millions):

| Loan Guarantee Programs | Current Year | Prior Year |
|---|---|---|
| FHA | | |
| a) MMI/CMHI Funds | $ (15,333) | $ (6,470) |
| b) GI/SRI Funds | (1,600) | (64) |
| c) H4H Program | - | - |
| All Other | $ (5) | $ 101 |
| Total | **$ (16,938)** | **$ (6,433)** |

# M. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loan Guarantees for FY 2015 Cohorts

| Loan Guarantee Program | Default | Fees and Other Collections | Total |
|---|---|---|---|
| **FHA Programs** | | | |
| MMI/CMHI | | | |
| Single Family - Forward | 2.7% | (10.5%) | (7.8%) |
| Single Family - HECM | 6.2% | (6.6%) | (0.4%) |
| Single Family - Refinancing | 10.1% | (10.1%) | 0.0% |
| Multi Family - Section 213 | 0.0% | 0.0% | 0.0% |
| GI/SRI | | | |
| Multifamily | | | |
| Section 221(d)(4) | 2.5% | (6.2%) | (3.7%) |
| Section 207/223(f) | 0.3% | (5.0%) | (4.7%) |
| Section 223(a)(7) | 0.3% | (5.0%) | (4.7%) |
| Section 232 | 3.8% | (8.0%) | (4.2%) |
| Section 242 | 2.6% | (7.1%) | (4.5%) |
| H4H | | | |
| Single Family - Section 257 | 0.0% | 0.0% | 0.0% |
| **All Other Programs** | | | |
| CDBG, Section 108(b) | 2.4% | 0.0% | 2.4% |
| Loan Guarantee Recovery | 50.0% | 0.0% | 50.0% |
| Indian Housing (weighted average) | 1.3% | 0.0% | 1.3% |
| Native Hawaiian Housing | 0.6% | 0.0% | 0.6% |
| Title VI Indian Housing | 11.2% | 0.0% | 11.2% |

## Budget Subsidy Rates for Loan Guarantees for FY 2014 Cohorts

| Loan Guarantee Program | Default | Fees and Other Collections | Total |
|---|---|---|---|
| **FHA Programs** | | | |
| MMI/CMHI | | | |
| Single Family - Forward | 2.9% | (10.2%) | (7.3%) |
| Single Family - HECM | 6.5% | (6.9%) | (0.4%) |
| Single Family - Refinancing | 11.4% | (11.4%) | 0.0% |
| Multi Family - Section 213 | 0.0% | 0.0% | 0.0% |
| GI/SRI | | | |
| Multifamily | | | |
| Section 221(d)(4) | 2.5% | (6.1%) | (3.6%) |
| Section 207/223(f) | 0.4% | (4.6%) | (4.2%) |
| Section 223(a)(7) | 0.4% | (4.6%) | (4.2%) |
| Section 232 | 2.8% | (6.8%) | (4.0%) |
| Section 242 | 3.2% | (7.3%) | (4.1%) |
| H4H | | | |
| Single Family - Section 257 | | | 0.0% |
| **All Other Programs** | | | |
| CDBG, Section 108(b) | 2.6% | 0.0% | 2.6% |
| Loan Guarantee Recovery | 50.0% | 0.0% | 50.0% |
| Indian Housing (weighted average) | 0.5% | 0.0% | 0.5% |
| Native Hawaiian Housing | 0.1% | 0.0% | 0.1% |
| Title VI Indian Housing | 12.1% | 0.0% | 12.1% |

## N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees) (dollars in millions):

| Beginning Balance, Changes, and Ending Balance | 2015 | 2014 |
|---|---|---|
| Beginning balance of the loan guarantee liability | $ 33,024 | $ 41,638 |
| Add: subsidy expense for guaranteed loans disbursed during the reporting years by component: | | |
| (a) Interest supplement costs | - | - |
| (b) Default costs (net of recoveries) | 6,875 | 5,101 |
| (c) Fees and other collections | (20,465) | (15,552) |
| (d) Othe subsidy costs | - | - |
| Total of the above subsidy expense components | $ (13,590) | $ (10,451) |
| Adjustments: | | |
| (a) Loan guarantee modifications | - | - |
| (b) Fees Received | 13,288 | 12,233 |
| (c) Interest supplemental paid | - | - |
| (d) Foreclosed property and loans acquired | 13,564 | 11,871 |
| (e) Claim payments to lenders | (26,642) | (27,960) |
| (f) Interest accumulation on the liability balance | 580 | 1,165 |
| (g) Other | 1,089 | 524 |
| Ending balance of the subsidy cost allowance before re-estimates | $ 21,313 | $ 29,020 |
| Add or Subtract subsidy re-estimates by component: | | |
| (a) Interest rate re-estimate | - | - |
| (b) Technical/default re-estimate | (3,876) | 5,387 |
| (c) Adjustment of prior years credit subsidy re-estimates | (1,032) | (658) |
| Total of the above re-estimate components | (4,908) | 4,729 |
| **Ending balance of the subsidy cost allowance** | **$ 16,405** | **$ 33,749** |
| Less: unrealized Ginnie Mae claims from defaulted loans | $ (2,098) | $ (1,970) |
| **Ending balance of the subsidy cost allowance** | **$ 14,307** | **$ 31,779** |

## O. Administrative Expenses (dollars in millions):

| Loan Guarantee Program | 2015 | 2014 |
|---|---|---|
| FHA | $ 557 | $ 576 |
| All Other | - | - |
| **Total** | **$ 557** | **$ 576** |

# Note 9: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2015 and 2014 (dollars in millions):

| | 2015 | | |
|---|---|---|---|
| **Description** | **Ginnie Mae Reported Balances** | **Allowance for Loan Losess Due to Payment of Probable Claims by FHA** | **Value of Assets Related to Loans** |
| Mortgage Loans Held for Investment | $ 4,362 | $ (1,334) | $ 3,028 |
| Advances Against Defaulted Mortgage-Backed Security Pools, net | 119 | - | 119 |
| Properties Held for Sale, net | 30 | - | 30 |
| Foreclosed Property | 769 | (719) | 50 |
| Short Sale Claims Receivable | 45 | (45) | - |
| **Total** | **$ 5,325** | **$ (2,098)** | **$ 3,227** |

| | 2014 | | |
|---|---|---|---|
| **Description** | **Ginnie Mae Reported Balances** | **Allowance for Loan Losess Due to Payment of Probable Claims by FHA** | **Value of Assets Related to Loans** |
| Mortgage Loans Held for Investment | $ 4,113 | $ (1,747) | $ 2,366 |
| Advances Against Defaulted Mortgage-Backed Security Pools, net | 81 | - | 81 |
| Properties Held for Sale, net | 13 | - | 13 |
| Foreclosed Property | 555 | (204) | 351 |
| Short Sale Claims Receivable | 17 | (19) | (2) |
| **Total** | **$ 4,779** | **$ (1,970)** | **$ 2,809** |

Other Non-Credit Reform Loans consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property. Below is a description of each type of asset recorded by Ginnie Mae.

### Mortgage Loans Held for Investment

When a Ginnie Mae issuer defaults, Ginnie Mae is required to step into the role of the issuer and make the timely pass-through payments to investors, and subsequently, assumes the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes the MSSs to service these portfolios. There are currently two MSSs for Single Family and one MSS for Manufactured Housing defaulted issuers. These MSSs currently service 100 percent of all non-pooled loans.

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool as required by the Ginnie Mae MBS Guide. Ginnie Mae purchases mortgage loans out of the MBS pool when:

A. Mortgage loans are uninsured by the FHA, USDA, VA or PIH

B. Mortgage loans were previously insured but insurance is currently denied (collectively with B), referred to as uninsured mortgage loans)

Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when:

C. Mortgage loans are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single family loans, respectively.

For the years ended September 30, 2015 and 2014, the majority of purchased mortgage loans were bought out of the pool due to borrower delinquency of more than three months.

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity. Therefore, Ginnie Mae classifies the mortgage loans as HFI. The mortgage loans HFI are reported net of allowance for loan losses.

Ginnie Mae evaluates the collectability of all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and if it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable. Ginnie Mae considers guarantees and insurance from FHA, USDA, VA and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms.

For FHA insured loans, Ginnie Mae expects to collect the full amount of the unpaid principal balance and debenture rate interest (only for months allowed in the insuring agency's timeline), when the insurer reimburses Ginnie Mae subsequent to filing a claim. As a result, these loans are accounted for under ASC Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs.* In accordance with ASC 310-20-30-5, these loans are recorded at the unpaid principal balance which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios for the estimated uncollectible portion of the principal balance of the loan. As a part of this assessment, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. Additionally, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers. Ginnie Mae records an allowance for the estimated uncollectible amount. The allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI.

Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure.

The fair value option was not elected by Ginnie Mae for any recognized loans on its balance sheet in 2015 and 2014. The fair value option allows certain financial assets, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses). Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods. As the fair value option was not elected and Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity, the mortgage loans were classified as loans HFI and reported at amortized cost (net of allowance for loan losses).

Management is currently pursuing marketing activities to potentially sell loans currently recognized on Ginnie Mae's balance sheet. Once a plan of sale is developed and loans are clearly identified for sale, Ginnie Mae will reclassify the applicable loans from HFI to HFS (held for sale). For loans which Ginnie Mae initially classifies as held for investment and subsequently transfers to HFS, those loans should be recognized at the lower of cost or fair value until sold. As of the year ended September 30, 2015 and 2014, Ginnie Mae has no loans classified as HFS.

Please note that management is currently assessing current and historic loan accounting for potential restatement.

Mortgage loans HFI, net as of September 30, 2015 and 2014, was $4,362 million and $4,113 million, respectively based on probable claims paid by FHA and recognized as an elimination in the Department's financial statements.

**Advances against Defaulted Mortgage-Backed Security Pools**

Advances against defaulted MBS pools represent pass-through payments made to fulfill Ginnie Mae's guarantee of timely principal and interest payments to MBS security holders. The advances are reported net of an allowance to the extent that management believes that they will not be recovered. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA and PIH. Other factors considered in the estimate include market analysis and appraised value of the loans. These loans are still accruing interest because they have not reached the required delinquency thresholds and purchased from the defaulted issuer pools.

Once Ginnie Mae purchases the loans from the pools after the 90 and 120 day delinquency thresholds for Manufactured Housing and Single Family loans, respectively, the loans are reclassified as Mortgage Loans Held for Investment discussed above. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure. Management is currently addressing current and historic accounting practices for potential restatement. The advances against defaulted MBS pools balance is $119 million in FY 2015 and $81 million in FY 2014.

### Properties Held for Sale, Net

Properties held for sale represent assets that Ginnie Mae has received the title of the underlying collateral (e.g. completely foreclosed upon and repossessed) and intends to sell the collateral. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale, they are to be recorded at the fair value of the asset less the estimated cost to sell with subsequent declines in the fair value below the initial acquired property cost basis recorded through the use of a valuation allowance. The Properties Held for Sale balance is one of the line items for which Ginnie Mae Management is currently performing an assessment related to the recognition and measurement as compared to US GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. A further assessment of data availability is currently being performed. Properties Held for Sale, net, as of September 30, 2015 and 2014 was $30 and $13 million, respectively.

### Foreclosed Property

Ginnie Mae records foreclosed property when a MSS receives marketable title to a property which has completed the foreclosure process in the respective state. The asset is measured as the principal and interest of a loan which is in the process of being conveyed to an insuring agency, net of an allowance. These assets are conveyed to the appropriate insuring agency within six months. Foreclosed property has previously been placed on nonaccrual status after the loan was repurchased from a pool. These properties differ from properties held for sale because they will be conveyed to an insuring agency, and not sold by the MSS.

The allowance for foreclosed property is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency. Management is currently addressing current and historic accounting practices for potential restatement. Foreclosed Property, net as of September 30, 2015, was $769 million, and, net as of September 30, 2014, was $555 million.

### Short Sale Claims Receivable

As an alternative to foreclosure, a property may be sold for its appraised value even if the sale results in a short sale where the proceeds are not sufficient to pay off the mortgage. Ginnie Mae's MSSs analyze mortgage loans HFI for factors such as delinquency, appraised value of the loan, and market in locale of the loan to identify loans that may be short sale eligible. These transactions are analyzed and approved by Ginnie Mae's MBS program office.

For FHA insured loans, for which the underlying property was sold in a short sale, the FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate. Hence, Ginnie Mae does not incur any losses as a result of the short sale of an FHA insured loan. Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For short sales claims receivable for which Ginnie Mae believes that collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency. Management is currently addressing current and historic accounting practices for potential restatement. Short Sale Claims Receivable, net as of September 30, 2015 and 2014 was $45 and $17 million, respectively.

## Note 10: General Property, Plant, and Equipment (Net)

General property, plant, and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department's assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2015 and September 30, 2014 (dollars in millions):

| Description | 2015 Cost | 2015 Accumulated Depreciation and Amortization | 2015 Book Value | 2014 Cost | 2014 Accumulated Depreciation and Amortization | 2014 Book Value |
|---|---|---|---|---|---|---|
| Equipment | $ 7 | $ - | $ 7 | $ 7 | $ - | $ 7 |
| Leasehold Improvements | - | - | - | - | - | - |
| Internal Use Software | 186 | (152) | 34 | 176 | (137) | 39 |
| Internal Use Software in Development | 288 | - | 288 | 262 | - | 262 |
| **Total** | **$ 481** | **$ (152)** | **$ 329** | **$ 445** | **$ (137)** | **$ 308** |

## Note 11: PIH Prepayments

HUD's assets include the Department's estimates for net restricted assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Voucher Program. NRA balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use NRA to cover any valid HAP expenses. PIH has estimated NRA balances of $205 million and $467 million for FY 2015 related to the Housing Choice Voucher and Moving to Work Programs. The amount of advances reported by the Department in its comparative financial statements does not include advances to grantees participating in the Indian Block Grant Program which allows investment authority for up to five years. Although the Department does not agree with the OIG's recommendation that expenditures be reclassified as advances, the OIG reported that 43 grantees invested approximately $273 million and $218 million as of September 30, 2015 and September 30, 2014, respectively.

## Note 12: Other Assets

The following shows HUD's Other Assets as of September 30, 2015 and 2014 (dollars in millions):

| Description | 2015 FHA | 2015 Ginnie Mae | 2015 Section 8 | 2015 All Other | 2015 Total |
|---|---|---|---|---|---|
| Intragovernmental Assets: | | | | | |
| Other Assets | $ 1 | $ - | $ 4 | $ 4 | $ 9 |
| Total Intragovernmental Assets | **1** | **-** | **4** | **4** | **9** |
| Mortgagor Reserves for Replacement - Cash | $ 37 | $ - | $ - | $ - | $ 37 |
| Other Assets | 8 | - | - | - | 8 |
| **Total** | **$ 46** | **$ -** | **$ 4** | **$ 4** | **$ 54** |

| Description | 2014 FHA | Ginnie Mae | Section 8 | All Other | Total |
|---|---|---|---|---|---|
| Intragovernmental Assets: | | | | | |
| Other Assets | $ 1 | $ - | $ 2 | $ 31 | $ 34 |
| Total Intragovernmental Assets | **1** | **-** | **2** | **31** | **34** |
| Mortgagor Reserves for Replacement - Cash | $ 41 | $ - | $ - | $ - | $ 41 |
| Other Assets | 6 | - | - | 1 | 7 |
| **Total** | **$ 48** | **$ -** | **$ 2** | **$ 32** | **$ 82** |

# Note 13: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2015 and 2014 (dollars in millions):

| Description | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Covered | Not-Covered | Total | Covered | Not-Covered | Total |
| Intragovernmental | | | | | | |
| Accounts Payable | $ 15 | $ - | $ 15 | $ 16 | $ - | $ 16 |
| Debt | 27,150 | - | 27,150 | 27,661 | - | 27,661 |
| Other Intragovernmental Liabilities | 2,594 | 16 | 2,610 | 1,785 | 16 | 1,801 |
| Total Intragovernmental Liabilities | $ 29,759 | $ 16 | $ 29,775 | $ 29,462 | $ 16 | $ 29,478 |
| Accounts Payable | 966 | - | 966 | 864 | - | 864 |
| Accrued Grant Liabilities | 2,388 | - | 2,388 | 1,501 | - | 1,501 |
| Liabilities for Loan Guarantees | 14,307 | - | 14,307 | 31,779 | - | 31,779 |
| Debt | 8 | - | 8 | 8 | - | 8 |
| Federal Employee and Veterans' Benefits | - | 69 | 69 | - | 74 | 74 |
| Loss Liability | - | - | - | - | - | - |
| Other Liabilities | 1,105 | 134 | 1,239 | 998 | 80 | 1,078 |
| **Total Liabilities** | **$ 48,533** | **$ 219** | **$ 48,752** | **$ 64,612** | **$ 170** | **$ 64,782** |

HUD's other governmental liabilities principally consists of Ginnie Mae's deferred revenue, FHA's special receipt account and the Department's payroll costs. Further disclosures of HUD's other liabilities are also found in Note 16.

# Note 14: Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2015 (dollars in millions):

| Description | Beginning Balance | Net Borrowings | Ending Balance |
|---|---|---|---|
| Debt to the Federal Financing Bank | $ - | $ 122 | $ 122 |
| Debt to the U.S. Treasury | 27,661 | (633) | 27,028 |
| Held by the Public | 9 | (1) | 8 |
| **Total** | $ 27,670 | $ (512) | $ 27,158 |
| Classification of Debt: | | | |
| Intragovernmental Debt | | | $ 27,150 |
| Debt held by the Public | | | 8 |
| **Total** | | | **$ 27,158** |

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2014 (dollars in millions):

| Description | Beginning Balance | Net Borrowings | Ending Balance |
|---|---|---|---|
| Debt to the Federal Financing Bank | $ - | $ - | $ - |
| Debt to the U.S. Treasury | $ 26,079 | $ 1,582 | $ 27,661 |
| Held by the Public | 20 | (12) | 8 |
| **Total** | $ 26,099 | $ 1,570 | $ 27,669 |
| Classification of Debt: | | | |
| Intragovernmental Debt | | | $ 27,661 |
| Debt held by the Public | | | 8 |
| **Total** | | | **$ 27,669** |

Interest paid on borrowings as of September 30, 2015 and 2014 was $1,191 million and $963 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

## Borrowings from the U.S. Treasury

In FY 2015 and FY 2014, FHA borrowed $27,023 million and $27,528 million, respectively, from the U.S. Treasury. In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.02 percent to 7.59 percent during FY 2015.

### Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB held substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default. In March of FY 2010, HUD repaid all FFB borrowings for the Low Rent Public Housing program.

### Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. There were no debentures issued in FY 2013. Interest rates related to the outstanding debentures ranged from 4.00 percent to 13.375 percent in FY 2011. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

## Note 15: Federal Employee and Veterans' Benefits

HUD is a non-administering agency; therefore, it relies on cost factors and other actuarial projections provided by the Department of Labor (DOL) and Office of Personnel Management (OPM). HUD's imputed costs consist of two components, pension and health care benefits. During FY 2015, HUD recorded imputed costs of $65 million which consisted of $27 million for pension and $38 million for health care benefits. During FY 2014, HUD recorded imputed costs of $79 million which consisted of $42 million for pension and $37 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $69 million as of September 30, 2015, and $74 million as of September 30, 2014. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $65 million noted above, HUD recorded benefit expenses totaling $179 million for FY 2015 and $170 million for FY 2014.

## Note 16: MBS Loss Liability

Liability for loss on MBS program guaranty (MBS loss liability) represents the loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer default. The issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee is measured under ASC Subtopic 450-20, *Contingencies – Loss Contingencies*.

Ginnie Mae's Office of Enterprise Risk (ERO) utilizes CorporateWatch to assist in the analysis of potential defaults. CorporateWatch assigns each issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active Issuer a risk grade ranging from 1-8, with 1 representing a low probability of default and 8 representing an elevated probability of default. A higher probability of default would arise from an observed weakness in an entity's financial health. Those Issuers with an elevated probability of default are assigned an internal risk grade of 7 or 8 and are automatically included in Risk Category I of the Watch List. ERO prepares written financial reviews on all Issuers appearing in Risk Category I of Watch List to assess the level of on-going monitoring needed to ensure that these Issuers remain viable Ginnie Mae counterparties or to take other mitigation actions.

## Note 17: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2015 (dollars in millions):

| **Description** | **Non-Current** | **Current** | **Total** |
|---|---|---|---|
| Intragovernmental Liabilities | | | |
| FHA Special Receipt Account Liability | $ - | $ 2,351 | $ 2,351 |
| Unfunded FECA Liability | 16 | - | 16 |
| Employer Contributions and Payroll Taxes | - | 5 | 5 |
| Miscellaneous Receipts Payable to Treasury | - | 228 | 228 |
| Advances to Federal Agencies | - | 10 | 10 |
| Total Intragovernmental Liabilities | $ 16 | $ 2,594 | $ 2,610 |
| Other Liabilities | | | |
| FHA Other Liabilities | $ - | $ 412 | $ 412 |
| FHA Escrow Funds Related to Mortgage Notes | - | 314 | 314 |
| Ginnie Mae Deferred Income | 273 | 34 | 307 |
| Deferred Credits | - | 18 | 18 |
| Deposit Funds | - | 13 | 13 |
| Accrued Unfunded Annual Leave | 79 | - | 79 |
| Accrued Funded Payroll Benefits | - | 32 | 32 |
| Contingent Liability | 55 | - | 55 |
| Other | 7 | 2 | 9 |
| **Total Other Liabilities** | **$ 430** | **$ 3,419** | **$ 3,849** |

The following shows HUD's Other Liabilities as of September 30, 2014 (dollars in millions):

| Description | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental Liabilities | | | |
| FHA Special Receipt Account Liability | $ 1,689 | $ - | $ 1,689 |
| Unfunded FECA Liability | 16 | - | 16 |
| Employer Contributions and Payroll Taxes | - | 4 | 4 |
| Miscellaneous Receipts Payable to Treasury | - | 82 | 82 |
| Advances to Federal Agencies | - | 10 | 10 |
| Total Intragovernmental Liabilities | $ 1,705 | $ 96 | $ 1,801 |
| Other Liabilities | | | |
| FHA Other Liabilities | $ 323 | $ - | $ 323 |
| FHA Escrow Funds Related to Mortgage Notes | 307 | - | 307 |
| Ginnie Mae Deferred Income | 267 | 22 | 289 |
| Deferred Credits | - | 18 | 18 |
| Deposit Funds | - | 15 | 15 |
| Accrued Unfunded Annual Leave | 80 | - | 80 |
| Accrued Funded Payroll Benefits | - | 29 | 29 |
| Contingent Liability | - | 15 | 15 |
| Other | - | 2 | 2 |
| **Total Other Liabilities** | **$ 2,682** | **$ 197** | **$ 2,879** |

### Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

## Note 18: Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

### A. FHA Mortgage Insurance

The outstanding principal of FHA's guaranteed loans (face value) as of September 30, 2015 and 2014 was $1,292 billion and $1,291 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2015 and 2014 was $1,178 billion and $1,186 billion, respectively, as disclosed in Note 8J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2015 and 2014 was $150 billion and $150 billion, respectively. As of September 30, 2015 and 2014, the insurance-in-force (the outstanding balance of active loans) was $105 billion and $106 billion, respectively, as disclosed in Note 8J. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

### B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee MBS. The securities are backed by pools of FHA, USDA, VA and

PIH mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2015 and 2014 was approximately $1,609 billion and $1,526 billion, respectively. However, Ginnie Mae's potential loss is considerably less because of the financial strength of the Department's issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2015 and 2014 were $129 billion and $98 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FY 2015 and FY 2014, Ginnie Mae issued a total of $93 billion and $114 billion, respectively, in its multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2015 and 2014 were $473 billion and $487 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

## C. Section 108 Loan Guarantees

Under HUD's Loan Guarantee (Section 108) program, recipients of the CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). Section 108 provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2015 and 2014 was $2 billion and $2 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

# Note 19: Contingencies

## Lawsuits and Other

FHA is party in various legal actions and claims brought by or against it. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $5.2 million or more. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on the Department's consolidated financial statements as of September 30, 2015. As a result, no contingent liability has been recorded.

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The potential loss related to an ongoing case related be HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of $55 million in its financial statements. Other ongoing suits cannot be reasonably determined at this time and in the opinion of management and general counsel, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

## Note 20: Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

### Ginnie Mae

Ginnie Mae is a self-financed government corporation, whose program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are to be used only for Ginnie Mae's legislatively authorized mission. In FY 2015, Ginnie Mae was authorized to use $23 million for payroll and payroll related expense, funded by commitment fees.

### Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in Section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in Section 236 projects. The Housing and Community Development Act of 1980 amended the 1978 Amendment by authorizing the transfer of excess rent collections regardless of when collected.

### Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

## American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act includes $14 billion for 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments under the Recovery Act program can be found at www.hud.gov/recovery.

## Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee (HUD) and its agents to carry out all aspects of the manufactured housing legislation. The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund.

The following shows funds from dedicated collections as of September 30, 2015 (dollars in millions):

| | Ginnie Mae | Rental Housing Assistance | Flexible Subsidy | Manufactued Housing Fees Trust Fund | Recovery Act Funds | Other | Eliminations | Total Earmarked Funds |
|---|---|---|---|---|---|---|---|---|
| **Balance Sheet** | | | | | | | | |
| Fund Balance w/Treasury | $ 2,142 | $ 8 | $ 380 | $ 14 | $ 42 | $ - | $ - | $ 2,586 |
| Cash and Other Monetary Assets | 45 | - | - | - | - | - | - | 45 |
| Investments | 12,923 | - | - | - | - | - | - | 12,923 |
| Accounts Receivable | 131 | 4 | - | - | 18 | - | - | 153 |
| Loans Receivable | - | - | 461 | - | (2) | - | - | 459 |
| Other Non-Credit Reform Loans Receivable | 5,325 | - | - | - | - | - | - | 5,325 |
| General Property, Plant and Equipment | 58 | - | - | - | - | - | - | 58 |
| Other | - | - | - | - | - | - | - | - |
| **Total Assets** | **$ 20,624** | **$ 12** | **$ 841** | **$ 14** | **$ 58** | **$ -** | **$ -** | **$ 21,549** |
| Debt - Intragovernmental | $ - | $ - | $ - | $ - | $ 3 | $ - | $ - | $ 3 |
| Accounts Payable - Intragovernmental | | - | - | - | - | - | - | - |
| Accounts Payable - Public | 135 | - | - | - | - | - | - | 135 |
| Loan Guarantees | - | - | - | - | - | - | - | - |
| Loss Liability | - | - | - | - | - | - | - | - |
| Other Liabilities - Intragovernmental | - | - | - | - | - | - | - | - |
| Other Liabilities - Public | 314 | - | - | - | - | - | - | 314 |
| Total Liabilities | $ 449 | $ - | $ - | $ - | $ 3 | $ - | $ - | $ 452 |
| Unexpended Appropriations | $ 1 | $ - | $ (376) | $ - | $ 55 | $ - | $ - | $ (320) |
| Cumulative Results of Operations | 20,174 | 12 | 1,217 | 14 | - | - | - | 21,417 |
| Total Net Position | $ 20,175 | $ 12 | $ 841 | $ 14 | $ 55 | $ - | $ - | $ 21,097 |
| **Total Liabilities and Net Position** | **$ 20,624** | **$ 12** | **$ 841** | **$ 14** | **$ 58** | **$ -** | **$ -** | **$ 21,549** |
| **Statement of Net Cost For the Period Ended** | | | | | | | | |
| Gross Costs | $ (234) | $ (3) | $ 3 | $ 9 | $ 79 | $ - | $ - | $ (146) |
| Less Earned Revenues | (1,551) | (2) | (3) | (11) | - | - | - | (1,567) |
| **Net Costs** | **$ (1,785)** | **$ (5)** | **$ -** | **$ (2)** | **$ 79** | **$ -** | **$ -** | **$ (1,713)** |
| **Statement of Changes in Net Position for the Period Ended** | | | | | | | | |
| Net Position Beginning of Period | $ 18,390 | $ 10 | $ 838 | $ 12 | $ 157 | $ - | $ - | $ 19,407 |
| Correction of Errors | - | (3) | - | - | - | - | - | (3) |
| Appropriations Received | - | - | - | - | - | - | - | - |
| Transfers In/Out Without Reimbursement | - | - | - | - | - | - | - | - |
| Imputed Costs | 1 | - | - | - | - | - | - | 1 |
| Donations and Forfeitures of Cash & Cash Equivalen | - | - | - | - | - | - | - | - |
| Penalties, Fines, and Administrative Fees Revenue | - | - | 3 | - | - | - | - | 3 |
| Other Adjustments | (1) | - | - | - | (23) | - | - | (24) |
| Net Cost of Operations | 1,785 | 5 | - | 2 | (79) | - | - | 1,713 |
| Change in Net Position | $ 1,785 | $ 5 | $ 3 | $ 2 | $ (102) | $ - | $ - | $ 1,693 |
| **Net Position End of Period** | **$ 20,175** | **$ 12** | **$ 841** | **$ 14** | **$ 55** | **$ -** | **$ -** | **$ 21,097** |

The following shows funds from dedicated collections as of September 30, 2014 (dollars in millions):

| | Ginnie Mae | Rental Housing Assistance | Flexible Subsidy | Manufactued Housing Fees Trust Fund | Recovery Act Funds | Other | Eliminations | Total Earmarked Funds |
|---|---|---|---|---|---|---|---|---|
| **Balance Sheet** | | | | | | | | |
| Fund Balance w/Treasury | $ 13,471 | $ 6 | $ 337 | $ 12 | $ 134 | $ - | $ - | $ 13,960 |
| Cash and Other Monetary Assets | 37 | - | - | - | - | - | - | 37 |
| Investments | 151 | - | - | - | - | - | - | 151 |
| Accounts Receivable | 320 | 4 | - | - | 21 | - | (2) | 343 |
| Loans Receivable | - | - | 501 | - | 6 | - | - | 507 |
| Other Non-Credit Reform Loans Receivable | 4,779 | - | - | - | - | - | - | 4,779 |
| General Property, Plant and Equipment | 42 | - | - | - | - | - | - | 42 |
| Other | - | - | - | - | - | - | - | - |
| **Total Assets** | **$ 18,800** | **$ 10** | **$ 838** | **$ 12** | **$ 161** | **$ -** | **$ (2)** | **$ 19,819** |
| Debt - Intragovernmental | $ - | $ - | $ - | $ - | $ 9 | $ - | $ - | $ 9 |
| Accounts Payable - Intragovernmental | | - | - | - | - | - | (2) | (2) |
| Accounts Payable - Public | 108 | - | - | - | - | - | - | 108 |
| Loan Guarantees | - | - | - | - | - | - | - | - |
| Loss Liability | - | - | - | - | - | - | - | - |
| Other Liabilities - Intragovernmental | - | - | - | - | - | - | - | - |
| Other Liabilities - Public | 305 | - | - | - | - | - | - | 305 |
| Total Liabilities | $ 413 | $ - | $ - | $ - | $ 9 | $ - | $ (2) | $ 420 |
| Unexpended Appropriations | $ 1 | $ - | $ (377) | $ - | $ 152 | $ - | $ - | $ (224) |
| Cumulative Results of Operations | 18,386 | 10 | 1,215 | 12 | - | - | - | 19,623 |
| Total Net Position | $ 18,387 | $ 10 | $ 838 | $ 12 | $ 152 | $ - | $ - | $ 19,399 |
| **Total Liabilities and Net Position** | **$ 18,800** | **$ 10** | **$ 838** | **$ 12** | **$ 161** | **$ -** | **$ (2)** | **$ 19,819** |
| **Statement of Net Cost For the Period Ended** | | | | | | | | |
| Gross Costs | $ (38) | $ - | $ (14) | $ 9 | $ 23 | $ 3 | $ - | $ (17) |
| Less Earned Revenues | (1,559) | (2) | (6) | (5) | (1) | (1) | - | (1,574) |
| **Net Costs** | **$ (1,597)** | **$ (2)** | **$ (20)** | **$ 4** | **$ 22** | **$ 2** | **$ -** | **$ (1,591)** |
| **Statement of Changes in Net Position for the Period Ended** | | | | | | | | |
| Net Position Beginning of Period | $ 16,935 | $ 8 | $ 817 | $ 15 | $ 160 | $ 2 | $ - | $ 17,937 |
| Correction of Errors | (145) | - | - | - | 19 | - | - | (126) |
| Appropriations Received | - | - | - | 1 | - | - | - | 1 |
| Transfers In/Out Without Reimbursement | - | - | - | - | (4) | - | - | (4) |
| Imputed Costs | 1 | - | - | - | (1) | - | - | - |
| Other Adjustments | (1) | - | - | - | - | - | - | (1) |
| Donations and Forfeitures of Cash & Cash Equivalen | - | - | - | - | - | - | - | - |
| Penalties, Fines, and Administrative Fees Revenue | - | - | 1 | - | - | - | - | 1 |
| Net Cost of Operations | 1,597 | 2 | 20 | (4) | (22) | (2) | - | 1,591 |
| Change in Net Position | $ 1,452 | $ 2 | $ 21 | $ (3) | $ (8) | $ (2) | $ - | $ 1,588 |
| **Net Position End of Period** | **$ 18,387** | **$ 10** | **$ 838** | **$ 12** | **$ 152** | **$ -** | **$ -** | **$ 19,399** |

# Note 21: Intragovernmental Costs and Exchange Revenue

The data below shows HUD's intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Revenues recognized by the Department may also be reported as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity.

The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

| 2015 | Federal Housing Administration | Ginnie Mae | Section 8 Rental Assistance | Low Rent Public Housing Loans and Grants | Homeless Assistance Grants | Housing for the Elderly and Disabled | Community Development Block Grants | HOME | All Other | Financial Statement Eliminations | Consolidating |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Intragovernmental Costs | $ 1,207 | $ 4 | $ 70 | $ 37 | $ 13 | $ 47 | $ 20 | $ 8 | $ 316 | $ - | $ 1,722 |
| Public Costs | (17,408) | (238) | 29,412 | 2,798 | 1,881 | 990 | 7,547 | 1,233 | 5,755 | - | 31,970 |
| Subtotal Costs | $ (16,201) | $ (234) | $ 29,482 | $ 2,835 | $ 1,894 | $ 1,037 | $ 7,567 | $ 1,241 | $ 6,071 | $ - | $ 33,692 |
| Unassigned Costs | | | | | | | | | $218 | | $218 |
| Total Costs | | | | | | | | | | | $ 33,910 |
| Intragovernmental Earned Revenue | $ (1,791) | $ (128) | $ - | $ - | $ (4) | $ - | $ - | $ - | $ (12) | $ - | $ (1,935) |
| Public Earned Revenue | (58) | (1,427) | - | - | - | (136) | - | - | (17) | - | (1,638) |
| Total Earned Revenue | (1,849) | (1,555) | - | - | (4) | (136) | - | - | (29) | - | (3,573) |
| **Net Cost of Operations** | **$ (18,050)** | **$ (1,789)** | **$ 29,482** | **$ 2,835** | **$ 1,890** | **$ 901** | **$ 7,567** | **$ 1,241** | **$ 6,260** | **$ -** | **$ 30,337** |

| 2014 | Federal Housing Administration | Ginnie Mae | Section 8 Rental Assistance | Low Rent Public Housing Loans and Grants | Homeless Assistance Grants | Housing for the Elderly and Disabled | Community Development Block Grants | HOME | All Other | Financial Statement Eliminations | Consolidating |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Intragovernmental Costs | $ 980 | $ 3 | $ 65 | $ 34 | $ 11 | $ 47 | $ 15 | $ 9 | $ 308 | $ - | $ 1,472 |
| Public Costs | (4,088) | (41) | 28,707 | 2,961 | 1,870 | 1,149 | 5,890 | 1,055 | 6,195 | - | 43,698 |
| Subtotal Costs | $ (3,108) | $ (38) | $ 28,772 | $ 2,995 | $ 1,881 | $ 1,196 | $ 5,905 | $ 1,064 | $ 6,503 | $ - | $ 45,170 |
| Unassigned Costs | | | | | | | | | $218 | | $218 |
| Total Costs | | | | | | | | | | | $ 45,388 |
| Intragovernmental Earned Revenue | $ (2,119) | $ (153) | $ - | $ - | $ - | $ - | $ (1) | $ - | $ (25) | $ - | $ (2,298) |
| Public Earned Revenue | (62) | (1,405) | - | - | - | (177) | - | - | (14) | - | (1,658) |
| Total Earned Revenue | (2,181) | (1,558) | - | - | - | (177) | (1) | - | (39) | - | (3,956) |
| **Net Cost of Operations** | **$ (5,289)** | **$ (1,596)** | **$ 28,772** | **$ 2,995** | **$ 1,881** | **$ 1,019** | **$ 5,904** | **$ 1,064** | **$ 6,682** | **$ -** | **$ 41,432** |

# Note 22: Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2015 (dollars in millions):

| Budget Functional Classification | Gross Cost | Earned Revenue | Net Cost |
|---|---|---|---|
| Intragovernmental: | | | |
| Commerce and Housing Credit | $ 1,212 | $ (1,920) | $ (708) |
| Community and Regional Development | 86 | - | 86 |
| Income Security | 424 | (15) | 409 |
| Other Multiple Functions | - | - | - |
| Financial Statement Eliminations | $ (1) | $ (1) | $ (2) |
| **Total Intragovernmental** | 1,721 | (1,936) | (215) |
| With the Public: | | | |
| Commerce and Housing Credit | $ (17,733) | $ (1,629) | $ (19,362) |
| Community and Regional Development | 7,659 | - | 7,659 |
| Income Security | 41,676 | (7) | 41,669 |
| Administration of Justice | 61 | - | 61 |
| Other Multiple Functions | 307 | - | 307 |
| **Total with the Public** | $ 31,970 | $ (1,636) | $ 30,334 |
| Not Assigned to Programs: | | | |
| Income Security | 218 | - | 218 |
| **Total with the Public** | $ 218 | $ - | $ 218 |
| TOTAL: | | | |
| Commerce and Housing Credit | $ (16,521) | $ (3,549) | $ (20,070) |
| Community and Regional Development | 7,745 | - | 7,745 |
| Income Security | 42,318 | (22) | 42,296 |
| Administration of Justice | 61 | - | 61 |
| Other Multiple Functions | 307 | - | 307 |
| Financial Statement Eliminations | (1) | (1) | (2) |
| **TOTAL:** | **$ 33,909** | **$ (3,572)** | **$ 30,337** |

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2014 (dollars in millions):

| Budget Functional Classification | Gross Cost | Earned Revenue | Net Cost |
|---|---|---|---|
| Intragovernmental: | | | |
| Commerce and Housing Credit | $ 983 | $ (2,272) | $ (1,289) |
| Community and Regional Development | 71 | (7) | 64 |
| Income Security | 422 | (11) | 411 |
| Other Multiple Functions | (2) | (8) | (10) |
| Financial Statement Eliminations | $ - | $ - | $ - |
| **Total Intragovernmental** | 1,474 | (2,298) | (824) |
| With the Public: | | | |
| Commerce and Housing Credit | $ (4,021) | $ (1,635) | $ (5,656) |
| Community and Regional Development | 6,057 | (1) | 6,056 |
| Income Security | 41,271 | (22) | 41,249 |
| Administration of Justice | 64 | - | 64 |
| Other Multiple Functions | 325 | - | 325 |
| **Total with the Public** | $ 43,696 | $ (1,658) | $ 42,038 |
| Not Assigned to Programs: | | | |
| Income Security | 218 | - | 218 |
| **Total with the Public** | $ 218 | $ - | $ 218 |
| TOTAL: | | | |
| Commerce and Housing Credit | $ (3,038) | $ (3,907) | $ (6,945) |
| Community and Regional Development | 6,128 | (8) | 6,120 |
| Income Security | 41,911 | (33) | 41,878 |
| Administration of Justice | 64 | - | 64 |
| Other Multiple Functions | 323 | (8) | 315 |
| Financial Statement Eliminations | - | - | - |
| **TOTAL:** | **$ 45,388** | **$ (3,956)** | **$ 41,432** |

## Note 23: Expenditures by Strategic Goals

As HUD updated its Strategic Plan to address the economic and community development issues the nation is facing, five Strategic Goals were identified. This note presents the expenditures incurred by HUD's various programs in achieving these goals. A description of each Strategic Goal is presented below and additional information is found in the Strategic Plan section of the AFR.

Goal 1: Strengthen the nation's housing market to bolster the economy and protect consumers

Goal 2: Meet the need for quality affordable rental homes

Goal 3: Utilize housing as a platform for improving quality of life

Goal 4: Build inclusive and sustainable communities free from discrimination

Goal 5: Transform the way HUD does business

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2015 (dollars in millions):

| Programs | Goal 1 | Goal 2 | Goal 3 | Goal 4 | Goal 5 | Total |
|---|---|---|---|---|---|---|
| FHA | $ (11,732) | $ (2,708) | $ (722) | $ (2,888) | $ - | $ (18,050) |
| Ginnie Mae | (1,342) | (447) | - | - | - | (1,789) |
| Section 8 Rental Assistance | - | 24,109 | 192 | 5,181 | - | 29,482 |
| Low Rent Public Housing Loans and Grants | 396 | 2,080 | 71 | 288 | - | 2,835 |
| Homeless Assistance Grants | - | 1,323 | 567 | - | - | 1,890 |
| Housing for the Elderly and Disabled | - | 561 | 79 | 261 | - | 901 |
| Community Development Block Grants | 1,513 | 379 | 1,135 | 4,540 | - | 7,567 |
| HOME | 335 | 670 | - | 236 | - | 1,241 |
| All Other Programs | 206 | 3,793 | 769 | 1,242 | 32 | 6,042 |
| **Total** | (10,624) | 29,760 | 2,091 | 8,860 | 32 | 30,119 |
| **Costs Not Assigned To Programs** | | | | | | $ 218 |
| **Total** | | | | | | 30,337 |

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2014 (dollars in millions):

| Programs | Goal 1 | Goal 2 | Goal 3 | Goal 4 | Goal 5 | Total |
|---|---|---|---|---|---|---|
| FHA | $ (3,438) | $ (793) | $ (212) | $ (846) | $ - | $ (5,289) |
| Ginnie Mae | (1,197) | (399) | - | - | - | (1,596) |
| Section 8 Rental Assistance | - | 23,528 | 188 | 5,056 | - | 28,772 |
| Low Rent Public Housing Loans and Grants | 418 | 2,198 | 75 | 304 | - | 2,995 |
| Homeless Assistance Grants | - | 1,317 | 564 | - | - | 1,881 |
| Housing for the Elderly and Disabled | - | 634 | 89 | 296 | - | 1,019 |
| Community Development Block Grants | 1,181 | 295 | 885 | 3,543 | - | 5,904 |
| HOME | 287 | 575 | - | 202 | - | 1,064 |
| All Other Programs | 308 | 3,901 | 797 | 1,428 | 30 | 6,464 |
| **Total** | (2,441) | 31,256 | 2,386 | 9,983 | 30 | 41,214 |
| **Costs Not Assigned To Programs** | | | | | | $ 218 |
| **Total** | | | | | | 41,432 |

## Note 24: Net Costs of HUD's Cross-Cutting Programs

This note provides a categorization of net costs for several major program areas whose costs were incurred among HUD's principal organizations previously discussed under Section 1 of the report. Costs incurred under HUD's other programs represent activities which support the Department's strategic goal to develop and preserve quality, healthy, and affordable homes.

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2015 (dollars in millions):

| HUD's Cross-Cutting Programs | Public and Indian Housing | Housing | Community Planning and Development | Other | Consolidated |
|---|---|---|---|---|---|
| **Section 8** | | | | | |
| Intragovernmental Gross Costs | $ 37 | $ 32 | $ - | $ - | $ 69 |
| Intragovernmental Earned Revenues | - | - | - | - | - |
| Intragovernmental Net Costs | $ 37 | $ 32 | $ - | $ - | $ 69 |
| Gross Costs with the Public | $ 19,053 | $ 10,281 | $ 80 | $ (2) | $ 29,412 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ 19,053 | $ 10,281 | $ 80 | $ (2) | 29,412 |
| **Net Program Costs** | **$ 19,090** | **$ 10,313** | **$ 80** | **$ (2)** | **$ 29,481** |
| **Homeless Assistance Grants** | | | | | |
| Intragovernmental Gross Costs | $ - | $ - | $ - | $ 13 | $ 13 |
| Intragovernmental Earned Revenues | - | - | (4) | - | (4) |
| Intragovernmental Net Costs | $ - | $ - | $ (4) | $ 13 | $ 9 |
| Gross Costs with the Public | $ - | $ - | $ 1,850 | $ 31 | $ 1,881 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ - | $ - | $ 1,850 | $ 31 | $ 1,881 |
| **Net Program Costs** | **$ -** | **$ -** | **$ 1,846** | **$ 44** | **$ 1,890** |
| **CDBG** | | | | | |
| Intragovernmental Gross Costs | $ - | $ - | $ 20 | $ - | $ 20 |
| Intragovernmental Earned Revenues | - | - | - | - | - |
| Intragovernmental Net Costs | $ - | $ - | $ 20 | $ - | $ 20 |
| Gross Costs with the Public | $ 55 | $ - | $ 7,455 | $ 36 | $ 7,546 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ 55 | $ - | $ 7,455 | $ 36 | $ 7,546 |
| **Net Program Costs** | **$ 55** | **$ -** | **$ 7,475** | **$ 36** | **$ 7,566** |
| **All Other** | | | | | |
| Intragovernmental Gross Costs | $ 86 | $ 153 | $ 50 | $ 27 | $ 316 |
| Intragovernmental Earned Revenues | 7 | (1) | 4 | (23) | (13) |
| Intragovernmental Net Costs | $ 93 | $ 152 | $ 54 | $ 4 | $ 303 |
| Gross Costs with the Public | $ 4,886 | $ 353 | $ 550 | $ (34) | $ 5,755 |
| Earned Revenues | - | (15) | - | (1) | (16) |
| Net Costs with the Public | $ 4,886 | $ 338 | $ 550 | $ (35) | $ 5,739 |
| **Net Program Costs** | **$ 4,979** | **$ 490** | **$ 604** | **$ (31)** | **$ 6,042** |
| Costs Not Assigned to Programs | $ 63 | $ 102 | $ 53 | $ - | $ 218 |
| **Net Program Costs (including indirect costs)** | **$ 5,042** | **$ 592** | **$ 657** | **$ (31)** | **$ 6,260** |

The following table shows the Department's cross-cutting costs among its major program areas for FY 2014 (dollars in millions):

| HUD's Cross-Cutting Programs | Public and Indian Housing | Housing | Community Planning and Development | Other | Consolidated |
|---|---|---|---|---|---|
| **Section 8** | | | | | |
| Intragovernmental Gross Costs | $ 33 | $ 33 | $ - | $ - | $ 66 |
| Intragovernmental Earned Revenues | - | - | - | - | - |
| Intragovernmental Net Costs | $ 33 | $ 33 | $ - | $ - | $ 66 |
| Gross Costs with the Public | $ 18,686 | $ 9,936 | $ 80 | $ 4 | $ 28,706 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ 18,686 | $ 9,936 | $ 80 | $ 4 | 28,706 |
| **Net Program Costs** | **$ 18,719** | **$ 9,969** | **$ 80** | **$ 4** | **$ 28,772** |
| **Low Rent Public Housing Loans & Grants** | | | | | |
| Intragovernmental Gross Costs | $ 34 | $ - | $ - | $ - | $ 34 |
| Intragovernmental Earned Revenues | - | - | - | - | - |
| Intragovernmental Net Costs | $ 34 | $ - | $ - | $ - | $ 34 |
| Gross Costs with the Public | $ 2,960 | $ - | $ - | $ 1 | $ 2,961 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ 2,960 | $ - | $ - | $ 1 | $ 2,961 |
| **Net Program Costs** | **$ 2,994** | **$ -** | **$ -** | **$ 1** | **$ 2,995** |
| **Homeless Assistance Grants** | | | | | |
| Intragovernmental Gross Costs | $ - | $ - | $ - | $ 12 | $ 12 |
| Intragovernmental Earned Revenues | - | - | - | - | - |
| Intragovernmental Net Costs | $ - | $ - | $ - | $ 12 | $ 12 |
| Gross Costs with the Public | $ - | $ - | $ 1,845 | $ 25 | $ 1,870 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ - | $ - | $ 1,845 | $ 25 | $ 1,870 |
| **Net Program Costs** | **$ -** | **$ -** | **$ 1,845** | **$ 37** | **$ 1,882** |
| **CDBG** | | | | | |
| Intragovernmental Gross Costs | $ - | $ - | $ 15 | $ - | $ 15 |
| Intragovernmental Earned Revenues | - | - | - | (1) | (1) |
| Intragovernmental Net Costs | $ - | $ - | $ 15 | $ (1) | $ 14 |
| Gross Costs with the Public | $ 67 | $ - | $ 5,742 | $ 81 | $ 5,890 |
| Earned Revenues | - | - | - | - | - |
| Net Costs with the Public | $ 67 | $ - | $ 5,742 | $ 81 | $ 5,890 |
| **Net Program Costs** | **$ 67** | **$ -** | **$ 5,757** | **$ 80** | **$ 5,904** |
| **All Other** | | | | | |
| Intragovernmental Gross Costs | $ 84 | $ 144 | $ 47 | $ 33 | $ 308 |
| Intragovernmental Earned Revenues | (1) | - | - | (24) | (25) |
| Intragovernmental Net Costs | $ 83 | $ 144 | $ 47 | $ 9 | $ 283 |
| Gross Costs with the Public | $ 4,755 | $ 497 | $ 903 | $ 41 | $ 6,196 |
| Earned Revenues | - | (13) | - | (1) | (14) |
| Net Costs with the Public | $ 4,755 | $ 484 | $ 903 | $ 40 | $ 6,182 |
| **Direct Program Costs** | **$ 4,838** | **$ 628** | **$ 950** | **$ 49** | **$ 6,465** |
| Costs Not Assigned to Programs | $ 69 | $ 93 | $ 56 | $ - | $ 218 |
| **Net Program Costs (including indirect costs)** | **$ 4,907** | **$ 721** | **$ 1,006** | **$ 49** | **$ 6,683** |

## Note 25: FHA Net Costs

FHA reports its insurance operations in three overall program areas: Single Family Forward mortgages, Multifamily/Healthcare mortgages, and Home Equity Conversion Mortgages (HECM). FHA operates these programs primarily through four insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), and Cooperative Management Housing Insurance (CMHI), with the MMI fund being the largest. There is a fifth fund, Hope for Homeowners (H4H), which became operational in fiscal year 2009 which contains minimal activity.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234) by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section 223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs (Section 232 and Section 242) enable low cost financing of health care facility projects and improve access to quality health care by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms.

The following table shows Net Cost detail for the FHA (dollars in millions):

| | Fiscal Year 2015 | | | | |
|---|---|---|---|---|---|
| | Single Family Forward Program | HECM Program | Multifamily/Healthcare Program | Administrative Costs | Total |
| Costs | | | | | |
| Intragovernmental Gross Costs | $ 955 | $ 59 | $ 177 | $ 16 | $ 1,207 |
| Intragovernmental Earned Revenues | (1,133) | (584) | (74) | - | (1,791) |
| Intragovernmental Net Costs | $ (178) | $ (525) | $ 103 | $ 16 | $ (584) |
| Gross Costs with the Public | $ (13,283) | $ (3,993) | $ (699) | $ 567 | $ (17,408) |
| Earned Revenues | (11) | (1) | (46) | - | (58) |
| Net Costs with the Public | $ (13,294) | $ (3,994) | $ (745) | $ 567 | $ (17,466) |
| **Net Program Costs** | **$ (13,472)** | **$ (4,519)** | **$ (642)** | **$ 583** | **$ (18,050)** |

| | Fiscal Year 2014 | | | | |
|---|---|---|---|---|---|
| | Single Family Forward Program | HECM Program | Multifamily/Healthcare Program | Administrative Costs | Total |
| Costs | | | | | |
| Intragovernmental Gross Costs | $ 736 | $ 59 | $ 168 | $ 17 | $ 980 |
| Intragovernmental Earned Revenues | (1,340) | (712) | (66) | - | (2,118) |
| Intragovernmental Net Costs | $ (604) | $ (653) | $ 102 | $ 17 | $ (1,138) |
| Gross Costs with the Public | $ (6,350) | $ 2,673 | $ (1,023) | $ 612 | $ (4,088) |
| Earned Revenues | (17) | (1) | (45) | - | (63) |
| Net Costs with the Public | $ (6,367) | $ 2,672 | $ (1,068) | $ 612 | $ (4,151) |
| **Net Program Costs** | **$ (6,971)** | **$ 2,019** | **$ (966)** | **$ 629** | **$ (5,289)** |

# Note 26: Commitments under HUD's Grant, Subsidy, and Loan Programs

## A. Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts below.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2015 (dollars in millions):

| | Undelivered Orders | | | | |
|---|---|---|---|---|---|
| **Programs** | **Unexpended Appropriations** | **Permanent Indefinite** | **Investment Authority** | **Offsetting Collections** | **Undelivered Orders - Obligations, Unpaid** |
| FHA | $ 140 | $ 79 | $ - | $ 1,825 | $ 2,044 |
| Ginnie Mae | 3 | - | - | 402 | 405 |
| Section 8 Rental Assistance | 8,896 | - | - | - | 8,896 |
| Low Rent Public Housing Loans and Grants | 4,359 | - | - | - | 4,359 |
| Homeless Assistance Grants | 2,389 | - | - | - | 2,389 |
| Housing for the Elderly and Disabled | 1,939 | - | - | - | 1,939 |
| Community Development Block Grants | 10,950 | - | - | - | 10,950 |
| HOME Partnership Investment Program | 2,855 | - | - | - | 2,855 |
| Section 235/236 | 951 | - | - | - | 951 |
| All Other | 3,336 | - | - | - | 3,336 |
| **Total** | **$ 35,818** | **$ 79** | **$ -** | **$ 2,227** | **$ 38,124** |

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2014 (dollars in millions):

| | Undelivered Orders | | | | |
|---|---|---|---|---|---|
| **Programs** | **Unexpended Appropriations** | **Permanent Indefinite** | **Investment Authority** | **Offsetting Collections** | **Undelivered Orders - Obligations, Unpaid** |
| FHA | $ 160 | $ 80 | $ - | $ 1,679 | $ 1,919 |
| Ginnie Mae | 4 | - | - | 418 | 422 |
| Section 8 Rental Assistance | 8,833 | - | - | - | 8,833 |
| Low Rent Public Housing Loans and Grants | 4,624 | - | - | - | 4,624 |
| Homeless Assistance Grants | 2,406 | - | - | - | 2,406 |
| Housing for the Elderly and Disabled | 2,264 | - | - | - | 2,264 |
| Community Development Block Grants | 12,267 | - | - | - | 12,267 |
| HOME Partnership Investment Program | 3,233 | - | - | - | 3,233 |
| Section 235/236 | 1,031 | 185 | - | - | 1,216 |
| All Other | 3,540 | - | - | - | 3,540 |
| **Total** | **$ 38,362** | **$ 265** | **$ -** | **$ 2,097** | **$ 40,724** |

## B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following chart shows HUD's administrative commitments as of September 30, 2015 (dollars in millions):

| | Reservations | | | |
|---|---|---|---|---|
| Programs | Unexpended Appropriations | Permanent Indefinite Appropriations | Offsetting Collections | Total Reservations |
| Section 8 Rental Assistance | $ 155 | $ - | $ - | $ 155 |
| Low Rent Public Housing Loans and Grants | 9 | - | - | 9 |
| Homeless Assistance Grants | 107 | - | - | 107 |
| Housing for the Elderly and Disabled | 106 | - | - | 106 |
| Community Development Block Grants | 7,868 | - | - | 7,868 |
| HOME Partnership Investment Program | 227 | - | - | 227 |
| Section 235/236 | - | - | - | - |
| All Other | 182 | - | - | 182 |
| **Total** | **$ 8,654** | **$ -** | **$ -** | **$ 8,654** |

The following chart shows HUD's administrative commitments as of September 30, 2014 (dollars in millions):

| | Reservations | | | |
|---|---|---|---|---|
| Programs | Unexpended Appropriations | Permanent Indefinite Appropriations | Offsetting Collections | Total Reservations |
| Section 8 Rental Assistance | $ 154 | $ - | $ - | $ 154 |
| Low Rent Public Housing Loans and Grants | 7 | - | - | 7 |
| Homeless Assistance Grants | 140 | - | - | 140 |
| Housing for the Elderly and Disabled | 96 | - | - | 96 |
| Community Development Block Grants | 8,428 | - | - | 8,428 |
| HOME Partnership Investment Program | 170 | - | - | 170 |
| Section 235/236 | - | - | - | - |
| All Other | 168 | - | - | 168 |
| **Total** | **$ 9,163** | **$ -** | **$ -** | **$ 9,163** |

# Note 27: Disaster Recovery Relief Efforts

Over the past years, the Department has developed an allocation process which focuses on unanticipated disaster recovery needs. Administered by the Office of Community Planning and Development, disaster recovery funds supplements the Federal Management Agency, the Small Business Administration, and the United States Army Corps of Engineers. The Department's funds must supplement, not replace, other sources of federal disaster recovery assistance. The funding is provided by grants to assist cities, counties, and States recover from Presidentially-declared disasters. Recent disaster recovery events include severe flooding in the upper Midwest, hurricanes in the Gulf Costs and severe weather systems, including Hurricane Sandy devastating the Mid-Atlantic region.

The following table shows the status of budgetary resources information for HUD's programs funded under the Community Development Block Grant Program to support disaster relief as of September 30, 2015 (dollars in millions):

| | | Total |
|---|---|---|
| Unobligated Balance, beginning of period | $ | 11,619 |
| Recoveries | | - |
| Budget Authority | | - |
| Spending Authority from Offsetting Collections | | - |
| Non-Expenditure Transfers, net | | - |
| Other Balances Withdrawn | | - |
| Total Budgetary Resources | **$** | **11,619** |
| | | |
| **Status of Budgetary Resources** | | |
| Obligations Incurred | $ | 3,527 |
| Unobligated Balance, available | | 8,091 |
| Unobligated Balance, not available | | - |
| Total Status of Budgetary Resources | **$** | **11,618** |
| | | |
| **Change in Obligated Balance** | | |
| Obligated Balance, net beginning of period | $ | 6,012 |
| Obligations Incurred | | 3,527 |
| Gross Outlays | | (3,432) |
| Recoveries | | - |
| Obligated Balance, net end of period | **$** | **6,107** |
| | | |
| **Net Outlays** | **$** | **3,432** |

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars in millions).

| | Obligations | Outlays | Unliquidated |
|---|---|---|---|
| Louisiana | $ 14,621 | $ 13,348 | $ 1,273 |
| Mississippi | 5,539 | 5,060 | 479 |
| Texas | 3,752 | 2,689 | 1,063 |
| Florida | 393 | 370 | 23 |
| Other States | 2,287 | 2,478 | (191) |
| **Total** | **$ 26,592** | **$ 23,945** | **$ 2,647** |

The following table shows the status of budgetary resources information for HUD's programs funded under the Community Development Block Grant Program to support disaster relief as of September 30, 2014 (dollars in millions):

| | Total |
|---|---|
| Unobligated Balance, beginning of period | $ 13,217 |
| Recoveries | - |
| Budget Authority | - |
| Spending Authority from Offsetting Collections | - |
| Non-Expenditure Transfers, net | - |
| Other Balances Withdrawn | - |
| Total Budgetary Resources | **13,217** |
| **Status of Budgetary Resources** | |
| Obligations Incurred | $ 1,598 |
| Unobligated Balance, available | 11,619 |
| Unobligated Balance, not available | - |
| Total Status of Budgetary Resources | **$ 13,217** |
| **Change in Obligated Balance** | |
| Obligated Balance, net beginning of period | $ 7,480 |
| Obligations Incurred | 1,598 |
| Gross Outlays | (3,066) |
| Recoveries | - |
| Obligated Balance, net end of period | **$ 6,012** |
| **Net Outlays** | **$ 3,066** |

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars in millions).

| | Obligations | Outlays | Unliquidated |
|---|---|---|---|
| Louisiana | $ 14,571 | $ 13,050 | $ 1,521 |
| Mississippi | 5,539 | 4,866 | 673 |
| Texas | 3,752 | 2,139 | 1,613 |
| Florida | 393 | 356 | 37 |
| Other States | 2,287 | 2,304 | (17) |
| **Total** | **$ 26,542** | **$ 22,715** | **$ 3,827** |

## Note 28: Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments.

HUD's categories of obligations incurred were as follows (dollars in millions):

| | Category A | Category B | Total |
|---|---|---|---|
| **2015** | | | |
| Direct | $ 984 | $ 112,448 | $ 113,432 |
| Reimbursable | - | 5,754 | 5,754 |
| **Total** | **$ 984** | **$ 118,202** | **$ 119,186** |

| | Category A | Category B | Total |
|---|---|---|---|
| **2014** | | | |
| Direct | $ 929 | $ 98,214 | $ 99,143 |
| Reimbursable | - | 2,288 | 2,288 |
| **Total** | **$ 929** | **$ 100,502** | **$ 101,431** |

## Note 29: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2015 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2015 data will be available in the Appendix to the Budget of the United States Government, FY 2017.

For FY 2014, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2014 (dollars in millions):

| | Budgetary Resources | Obligations Incurred | Distributed Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| Combined Statement of Budgetary Resources | $ 185,922 | $ 101,431 | $ (2,719) | $ 53,763 |
| Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget | (705) | (97) | - | - |
| Difference #2 - Offsetting receipts included in the President's Budget | - | - | 1 | - |
| Difference #3 - Offsetting receipts not included in the President's Budget | - | - | 12 | (2) |
| Difference #4 - Ginnie Mae amounts from temporary reduction of prior year balances | 1 | (1) | - | (1) |
| Difference #5 - Ginnie Mae amounts precluded from obligation | - | - | - | - |
| Difference #6 - Rounding issues | 7 | 4 | 1 | 1 |
| **United States Budget** | **$ 185,225** | **$ 101,337** | **$ (2,705)** | **$ 53,761** |

# Note 30: Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2015 and 2014 (dollars in millions):

| | 2015 | 2014 |
|---|---|---|
| **Budgetary Resources Obligated** | | |
| Obligations Incurred | $ 119,186 | $ 101,431 |
| Spending Authority from Offsetting Collections and Recoveries | (68,862) | (43,393) |
| Obligations Net of Offsetting Collections | $ 50,324 | $ 58,038 |
| Offsetting Receipts | (2,844) | (2,719) |
| Net Obligations | $ 47,480 | $ 55,319 |
| **Other Resources** | | |
| Transfers In/Out Without Reimbursement | $ - | $ 1 |
| Imputed Financing from Costs Absorbed by Others | 65 | 79 |
| FHA Transfers Out to U.S. Dept. of Treasury for negative subsidies | (3,679) | - |
| CFO Other Resources | 4 | - |
| Net Other Resources Used to Finance Activities | $ (3,610) | $ 80 |
| **Total Resources Used to Finance Activities** | $ 43,870 | $ 55,399 |
| **Resources Used to Finance Items Not Part of the Net Cost of Operations** | | |
| Change in Budgetary Resources Obligated for Goods/Services/Benefits | | |
| Services Ordered but Not Yet Provided | $ 2,895 | $ 2,801 |
| Credit Program Resources that Increase LLG or Allowance for Subsidy | 243 | 365 |
| Credit Program Resources not Included in Net Cost (Surplus) of Operations | - | 45,001 |
| Resources that Finance the Acquisition of Assets or Liquidation of Liabilities | 58,057 | (45,435) |
| Resources that Fund Expenses from Prior Periods | (14,991) | (6,025) |
| Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations | (49,141) | (56) |
| Other | 12,792 | (1,628) |
| **Total Resources Used to Finance Items Not Part of Net Cost of Operations** | $ 9,855 | $ (4,977) |
| **Total Resources Used to Finance the Net Cost of Operations** | $ 53,725 | $ 50,422 |
| **Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period** | | |
| Upward/Downward Re-estimates of Credit Subsidy Expense | $ (4,916) | $ 4,613 |
| Increase in Exchange Revenue Receivable from the Public | (139) | (171) |
| Change in Loan Loss Reserve | (1) | 27 |
| Revaluation of Assets or Liabilities | 5 | - |
| Depreciation and Amortization | (11) | (1) |
| Changes in Bad Debt Expenses Related to Credit Reform Receivables | (42) | (97) |
| Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications | (13,607) | (10,457) |
| Increase in Annual Leave Liability | - | - |
| Other | (4,677) | (2,904) |
| **Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period** | $ (23,388) | $ (8,990) |
| **Net Cost of Operations** | **$ 30,337** | **$ 41,432** |

## Note 31: Restatement of the Department's Fiscal Year 2014 Financial Statements

In FY 2015, the Department corrected material errors in the Consolidated Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position to recognize the re-estimate of prepayments from balances accumulated by PHAs under the Moving to Work Program (MTW). Based on self-reported program data and disbursements recorded in HUDCAPS, the Department estimated that PHAs held approximately $466 million and $573 million as of FY 2015 and FY 2014 respectively in excess funds in its reserve accounts. As a result, the amount of program expenses reported under the Section 8 Rental Assistance program increased by $107 million in FY 2015. The advances under the Moving to Work Program was not available in FY 2014 and as a result, the Department's FY 2014 restated financial statements do not reflect this adjustment to the Balance Sheet, Statement of Net Cost or the Statement of Changes in Net Position.

The Department's restated financial statements do not reflect the impact of eliminating the current use of the First in First out (FIFO) method to liquidate obligations under CPD's formula grant programs. The Department's efforts to modify the Integrated Disbursement Information System (IDIS) to ensure that the disbursements are matched to the proper funding source as required under U.S. generally accepted accounting principles (GAAP) is a proactive approach beginning in FY 2015. Until the systems modifications are completed by the Department, the impact on HUD's financial statements cannot be determined. HUD was also not able to assess the impact of revising its regulations based on GAO's ruling of HUD's interpretation of the 24 month commitment period which grantees must adhere to as a stipulation to receiving Federal funds. The failure by a grantee to meet the 24-month commitment as interpreted by GAO would result in greater recoveries reported on the Department's Statement of Budgetary Resources.

Furthermore, the restated financial statements do not reflect Emergency Homeowners' Loan Program gross loans receivables balances of approximately $114 and $120 million for fiscal years 2015 and 2014 respectively. The amounts were not recorded in the Department's accounting records due to data integrity issues which the Department is currently analyzing.

### Ginnie Mae Accounting Error Corrections

In FY 2015, Ginnie Mae restated its FY 2014 financial statements to correct errors in the Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position. The impact of these errors resulted in the Department's equity reported on the consolidated financial statement to be overstated by $150 million. Ginnie Mae has classified the restatement adjustments in four categories:

## Cash and Other Monetary Assets

Ginnie Mae identified accounting errors with the classification of deposits in transit in the amount of $37 million. Ginnie Mae incorrectly classified these deposits in transit on its Balance Sheet as part of "Other Non-Credit Reform Loans" for the year ended September 30, 2014. These deposits in transit should have been recorded as "Cash and Other Monetary Assets" in the Balance Sheet. As a result of this error, Ginnie Mae has reclassified a total of $37 million from "Other Non-Credit Reform Loans" to "Cash and Other Monetary Assets" for the year ended September 30, 2014.

## General Property, Plant and Equipment

Ginnie Mae identified accounting errors associated with its accounting treatment of expenses associated with internally developed software and hardware purchases. Ginnie Mae incorrectly recognized some internally developed software and hardware expenses in the period incurred instead of capitalizing the costs. Additionally, certain expenditures that did not meet the capitalization criteria per Ginnie Mae's accounting policy were capitalized in error and some software projects, which were completed, and in use were not being amortized. The impact of correcting these errors resulted in an increase in "General Property and Equipment, Net' of $10 million for the year ended September 30, 2014.

## Multiclass Fee Accounting

Ginnie Mae identified accounting errors associated with the recognition of multiclass fees. Ginnie Mae incorrectly recognized multiclass fees as revenue before the earnings process was complete. The impact of these errors resulted in an increase of $160 million in "Other Governmental Liabilities" for the year ended September 30, 2014.

## MBS Loan Liability

Ginnie Mae identified accounting errors associated with the MBS Loss Liability as the amount incorrectly included a liability related to estimated incurred foreclosure related losses for mortgage loans held for investment and short sales claims receivable. The impact of correcting these errors resulted in a reclassification of $735 million form the "MBS Loss Liability" to the allowance against "Non-Credit Reform Loans."

| Balance Sheet (dollars in millions) | September 30, 2014 Consolidated Financial Statements (without restatement) | September 30, 2014 Consolidated Financial Statements (with restatement) | Change |
|---|---|---|---|
| **ASSETS** | | | |
| Intragovernmental | | | |
| Fund Balance with Treasury (Note 4) | $ 121,703 | $ 121,703 | $ - |
| Investments (Note 6) | 6,529 | 6,529 | - |
| Accounts Receivable, Net (Note 7) | - | - | - |
| Other Assets (Note 12) | 33 | 34 | (1) |
| **Total Intragovernmental** | $ 128,265 | $ 128,266 | $ (1) |
| Cash and Other Monetary Assets (Note 5) | $ - | $ 37 | $ (37) |
| Investments (Note 6) | 41 | 41 | - |
| Accounts Receivable, Net (Note 7) | 1,901 | 1,887 | 14 |
| Direct Loan and Loan Guarantees, Net (Note 8) | 10,868 | 10,868 | - |
| Other Non-Credit Reform Loans (Note 9) | 3,569 | 2,809 | 760 |
| General Property, Plant and Equipment, Net (Note 10) | 297 | 308 | (11) |
| PIH Prepayments (Note 11) | 423 | 423 | - |
| Other Assets (Note 12) | 48 | 48 | - |
| **TOTAL ASSETS** | $ 145,412 | $ 144,687 | $ 725 |
| **LIABILITIES** | | | |
| Intragovernmental Liabilities | | | |
| Accounts Payable (Note 13) | $ 16 | $ 16 | $ - |
| Debt (Note 14) | 27,661 | 27,661 | - |
| Other Intragovernmental Liabilities (Note 17) | 1,802 | 1,801 | 1 |
| **Total Intragovernmental** | $ 29,479 | $ 29,478 | $ 1 |
| Accounts Payable (Note 13) | $ 863 | $ 864 | $ (1) |
| Accrued Grant Liabilities (Note 13) | 1,501 | 1,501 | - |
| Loan Guarantee Liability (Note 8) | 31,779 | 31,779 | - |
| Debt Held by the Public (Note 14) | 8 | 8 | - |
| Federal Employee and Veteran Benefits (Note 15) | 74 | 74 | - |
| Loss Reserves (Note 16) | 735 | - | 735 |
| Other Governmental Liabilities (Note 17) | 918 | 1,078 | (160) |
| **TOTAL LIABILITIES** | $ 65,357 | $ 64,782 | $ 575 |
| **Net Position** | | | |
| Unexpended Appropriations - Earmarked Funds (Note 20) | $ (224) | $ (224) | $ - |
| Unexpended Appropriations - Other Funds | 56,442 | 56,443 | (1) |
| Cumulative Results of Operations - Earmarked Funds (Note 20) | 19,773 | 19,623 | 150 |
| Cumulative Results of Operations - Other Funds | 4,064 | 4,063 | 1 |
| **Total Net Position** | $ 80,055 | $ 79,905 | $ 150 |
| **Total Liabilities and Net Position** | $ 145,412 | $ 144,687 | $ 725 |

| Statement of Changes in Net Position (dollars in millions) | September 30, 2014 Consolidated Financial Statements (without restatement) | September 30, 2014 Consolidated Financial Statements (with restatement) | Change |
|---|---|---|---|
| **Cumulative Results of Operations:** | | | |
| **Beginning Balances** | $ 18,577 | $ 18,577 | $ - |
| **Adjustments** | | | - |
| Changes in Accounting Principles | - | - | - |
| Corrections of Errors | (99) | (244) | 145 |
| **Beginning Balances, As Adjusted** | $ 18,478 | $ 18,333 | $ 145 |
| | | | |
| **Budgetary Financing Sources:** | | | |
| Other Adjustments | $ - | $ - | $ - |
| Appropriations Used | 49,368 | 49,368 | - |
| Non-exchange Revenue | 1 | 1 | - |
| Donations/Forfeitures of Cash & Cash Equivalents | - | - | - |
| Transfers In/Out Without Reimbursement | - | - | - |
| Other | - | - | - |
| | | | |
| **Other Financing Sources (Non-Exchange):** | | | |
| Transfers In/Out Without Reimbursement | $ - | $ - | $ - |
| Imputed Financing | 79 | 77 | 2 |
| Other | (2,663) | (2,663) | - |
| | | | |
| Total Financing Sources | 46,785 | 46,783 | 2 |
| Net Cost of Operations | (41,427) | (41,433) | 6 |
| Net Change | $ 5,358 | $ 5,350 | $ 8 |
| | | | |
| **Cumulative Results of Operations** | **$ 23,836** | **$ 23,683** | **$ 153** |
| | | | |
| **Unexpended Appropriations:** | | | |
| **Beginning Balances** | $ 59,780 | $ 59,781 | $ (1) |
| **Adjustments** | | | |
| Changes in Accounting Principles | - | - | - |
| Corrections of Errors | 43 | 41 | 2 |
| **Beginning Balances, As Adjusted** | $ 59,823 | $ 59,822 | $ 1 |
| | | | |
| **Budgetary Financing Sources:** | | | |
| Appropriations Received | $ 46,103 | $ 46,103 | $ - |
| Appropriations Transferred In/Out | - | - | - |
| Other Adjustments | (339) | (338) | (1) |
| Appropriations Used | (49,369) | (49,368) | (1) |
| Total Budgetary Financing Sources | $ (3,605) | $ (3,603) | $ (2) |
| **Unexpended Appropriations** | $ 56,218 | $ 56,219 | $ (1) |
| **Net Position** | $ 80,054 | $ 79,902 | $ 152 |

| Statement of Net Cost (dollars in millions) | September 30, 2014 Consolidated Financial Statements (without restatement) | September 30, 2014 Consolidated Financial Statements (with restatement) | Change |
|---|---|---|---|
| **Program Costs** | | | |
| Gross Costs | $ 45,368 | $ 45,388 | $ (20) |
| Less: Earned Revenue | (3,942) | (3,956) | 14 |
| Net Program Costs | $ 41,426 | $ 41,432 | $ (6) |
| | | | |
| **Net Cost of Operations** | $ 41,426 | $ 41,432 | $ (6) |