U.S Department of Housing and Urban Development,Washington, DC

Fiscal Years 2014 and 2013 Consolidated Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2015-FO-0004
March 6, 2015

March 6, 2015

To: Bradford Huther, Chief Financial Officer, F

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

Subject: Independent Auditor's Report on HUD's Consolidated Financial Statements and Reports on Internal Controls Over Financial Reporting and Compliance with Laws and Regulations

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.

Audit Report Number: 2015-FO-0004
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Audit of the U.S. Department of Housing and Urban Development's Consolidated Financial Statements for Fiscal Years 2014 and 2013

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 Federal Housing Administration (FHA) 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 year 2014 and fiscal year 2013 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 year 2014 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 and (2) $6.6 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. This audit report contains eight material weaknesses, and eight significant deficiencies in internal controls, and five 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

HUD OIG's recommendations to each of the components' findings were made in Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014; Audit Report 2015-FO-0001, Federal Housing Administration Financial Statements Audit, issued November 14, 2014; and Audit Report 2015-FO-0003, Government National Mortgage Association Financial Statement Audit, issued February 27, 2015.

Table of Contents

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report

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

Report on the Financial Statements

The Chief Financial Officers Act of 1990 requires the U.S. Department of Housing and Urban Development (HUD) to prepare the accompanying consolidated balance sheets as of September 30, 2014 and 2013 (restated), and 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 14-02.

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.

Auditor's Responsibility

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 14-02, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so. With respect to fiscal year 2013, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the period ending September 30, 2013, that reflected total assets of 58 percent of the related consolidated totals. Another independent auditor, whose reports have been furnished to us, audited those statements, and our opinion on the fiscal years 2014 and 2013 financial statements related to the amounts included for FHA and Ginnie Mae as of September 30, 2013, is based solely on the reports of the other auditor.

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 on 2014 Financial Statements 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 on 2014 Financial Statements

Our audit identified two areas in which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal year 2014 financial statements. When evaluating these two areas and their impacts on the financial statements as a whole, we determined, in the aggregate, that they were both material and pervasive to the fiscal year 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 budgetary accounting. HUD continues to perform budgetary accounting for the Office of Community Planning and Development (CPD) that is not in accordance with Federal generally accepted accounting principles (GAAP) and has resulted in a material misstatement in HUD's combined statement of budgetary resources. HUD uses cumulative and first-in, first-out (FIFO) methods to disburse, which are both unacceptable and not in accordance with GAAP for grants in the Federal Government, to determine the amount of uncommitted HOME Investment Partnerships Program grant funds that would be subject to reallocation or recapture under section 218(g) of the HOME Investment Partnership Act and to process disbursements for CPD formula programs, respectively. Given the dollar risk exposure and volume of CPD grant activities from several thousand grantees (approximately $5 billion in annual appropriations to support CPD-related programs, including the HOME Investment Partnerships, Community Development Block Grant, Housing Opportunities 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), we determined that financial transactions related to these CPD programs that entered HUD's accounting system were being processed incorrectly. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balances brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2014 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 cannot 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.

Disclaimer of opinion on Ginnie Mae financial statements. Despite multiple attempts, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the $6.6 billion in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio. The nonpooled loan assets arose from the acquisition of nonperforming loans (typically over 120 days old delinquent) from Ginnie Mae's defaulted issuers' portfolio. These assets, which represent 26 percent of Ginnie Mae's total assets, were made up of a number of asset line items in the balance sheet. These are (1) mortgage loans held for investment ($5.3 billion), (2) advances against defaulted mortgage-backed security pools ($193 million), (3) short sale claims receivable ($50 million), (4) foreclosed-upon property ($616 million), (5) accrued interest on mortgage loans held for investment ($414 million), and (6) properties held for sale ($17 million). Ginnie Mae was unable to provide relevant documents and data, which we needed to complete our audit testing of these asset balances, because of the functional limitations of financial management systems to perform loan-level accounting as well as poor accounting and record-keeping practices. Additionally, Ginnie Mae improperly accounted for FHA reimbursable costs as an expense. These costs were charged to the mortgage-backed security loss liability account instead of being capitalized as an asset. This error resulted in the misstatement of the asset and net income and may require a restatement of previous years' financial statements, depending on the materiality of misstatements, resulting from multiple years of incorrect accounting. We were not able to determine with sufficient accuracy a proposed adjustment to correct the error due to insufficient available data. Using Ginnie Mae's limited data, our estimate of the error was between $144 million and $248 million. Ginnie Mae also had an insufficient basis to support the fairness of the $735 million in the mortgage-backed security loss liability account. The loss liability represents Ginnie Mae's estimated non-recoverable servicing and foreclosure costs to be incurred from its defaulted issuers' portfolio of nonpooled loans. This loss liability account was based on estimates and consisted of multiple assumptions. The foreclosure cost and loan redefault rate assumptions were two areas of audit concern.

We identified another matter that would have required a modification to the opinion because of materiality; however, it was not pervasive.

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 how to develop a reasonable estimate to report on the financial statements. For the first time, HUD prepared an estimate to accrue for these liabilities on its financial statements, which totaled $1.501 billion and $2.213 billion for fiscal years 2014 and 2013, respectively. While we obtained sufficient appropriate audit evidence indicating that fiscal year 2013's estimate was likely to have been misstated and did not represent a reasonable estimate, we were unable to do so for the fiscal year 2014 estimate. This lack of evidence was due to HUD's not adequately validating its estimates with grantee reporting to substantiate the assumptions used to develop the accrued grant liability estimates and 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 HUD. Therefore, we could not form an opinion on HUD's grant accrual estimate for fiscal year 2014.

Disclaimer of Opinion on the Fiscal Year 2014 Financial Statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on 2014 Financial Statements 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, 2014, 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.

Qualified Opinion on Fiscal Year 2013 (Restated) Financial Statements

In our opinion, based on our audit and the reports of other auditors, except for the discussion related to improper budgetary accounting included in the Basis for Disclaimer of Opinion on 2014 Financial Statements section, the principal financial statements and accompanying notes presented fairly, in all material respects, the financial position of HUD as of September 30, 2013, and its net costs, changes in net position, and budgetary resources for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

In our prior-year reported opinion, dated December 16, 2013, we reported a modified opinion due to scope limitations related to improper budgetary accounting for Ginnie Mae and the lack of accounting for cash management. During the current year, we obtained sufficient appropriate audit evidence in these areas to support the clearance of these two basses' for qualification. Accordingly, our present opinion on the restated fiscal year 2013 financial statements has been updated to reflect the removal of these bases for qualification. However, the qualification related to improper budgetary accounting related to CPD's use of the FIFO and cumulative methods remains.

At the time of issuance of this auditor's report and as discussed in Note 30 to the financial statements, the 2013 financial statements have been restated for the correction of two material misstatements, the accounting for Office of Public and Indian Housing (PIH) Prepayments and the accrual of liabilities related to grantee expenses incurred but not reimbursed. Additionally, another restatement was made to accurately classify Ginnie Mae's resources as budgetary and non-budgetary. There were other material misstatements in the fiscal year 2014 financial statements related to the current use of the FIFO method to liquidate obligations under CPD's formula grant programs, and no adjustments had been made related to the use of FIFO because the specific amount of misstatements and their related effects were unknown. A restatement related to CPD's programs will occur once HUD determines the appropriate adjustments needed to correct the errors. Additional details can be found in Note 30 to the financial statements.

Other Matters

Prior-Period Financial Statements Audited by a Predecessor Auditor

Ginnie Mae's financial statements as of September 30, 2013, were audited by CliftonLarsonAllen LLP (CLA), which expressed in a report on November 25, 2013, an unqualified opinion on those statements. In fiscal year 2014, we communicated to CLA material misstatements in the financial statements that we identified during our audit that affected previously issued financial statements. CLA reviewed the issues raised and concurred with our conclusion. Accordingly, CLA notified OIG that CLA is withdrawing the opinion rendered in connection with its audit of Ginnie Mae's 2013 financial statements because the opinion can no longer be relied upon.

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 were unable to apply certain limited procedures to the required supplementary information in accordance with government auditing standards generally accepted in the United States because management could not provide the information within the timeframe required to allow for us to perform the necessary procedures. We do not express an opinion or provide any assurance on the information.

In its Fiscal Year 2014 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 purposes of 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

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 any assurance on it.

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.[1] 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

[1] Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014; Audit Report 2015-FO-0001, Federal Housing Administration Financial Statements Audit, issued November 14, 2014; Audit Report 2015-FO-0003, Government National Mortgage Association Financial Statement Audit, issued February 27, 2015)

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 eight material weaknesses and eight significant deficiencies.

Material Weaknesses

<u>CPD's Fomula Grant Accounting Did not Comply with GAAP, Resulting in Misstatements on the Financial Statements</u>

HUD's CPD formula grant program accounting continued to be a departure from GAAP due to its use of the FIFO method to disburse obligations. As reported in fiscal year 2013, the information system used, Integrated Disbursement Information System (IDIS) Online, a grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online will only be applied to fiscal year 2015 and future grants and will not be applied retroactively for 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 attribute resulted in additional misstatements. Due to the inability of IDIS Online to provide an audit trail of all of the financial events affected by the FIFO method, the financial affects of FIFO, which were applied to its consolidated financial statements, could not be quantified. Further, due to 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 not prevented from being 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.

<u>Weaknesses in PIH's Cash Management Process Continued to Effect Financial Reporting and HUD's Compliance with Treasury Requirements</u>

In fiscal year 2014, HUD attempted to bring its cash management process for the Section 8 Housing Choice Voucher program into compliance with GAAP and U.S. Department of the Treasury requirements; however, weaknesses in the process continued to impact HUD's compliance with the requirements. To attempt compliance in fiscal year 2014, The Office of the Chief Financial Officer (OCFO) began reporting financial activity related to the cash management process, but the activity was not recorded in the general ledger completely, accurately, or in a timely manner. Additionally, PIH had begun transitioning most of the pre-cash-management net restricted asset (NRA) funds; however, since it did not perform cash reconciliations, public housing agencies (PHA) accumulated new NRA funds in excess of their immediate disbursement needs. These issues were the result of HUD's weak internal controls over the cash management process, including the lack of an automated process. Since HUD's general ledger did not sufficiently capture cash management events and PHAs continued to hold funds in excess of their immediate disbursement needs, HUD remained in violation of U.S. Department of the Treasury cash management regulations, and the PIH prepayment financial statement line item reported on HUD's balance sheet was at high risk for misstatement.

HUD's Grant Accrual Estimates Were Not Validated
HUD did not validate its grant accrual estimates, and CPD did not include grants that were recorded and tracked in HUD's Disaster Recovery Grant Reporting (DRGR) system in its estimate. This deficiency was due to a lack of proper validation procedures in HUD's estimation methodologies, CPD's excluding DRGR system grants in its methodologies, and a lack of relevant grantee reporting. As a result, CPD's fiscal year 2013 grant accrual estimate was overstated by at least $378 million. Further, for fiscal year 2014, we were unable to perform all of the audit procedures we deemed necessary to obtain sufficient appropriate audit evidence to form an opinion on HUD's estimate because of the internal control weaknesses in HUD's accrued grant liability estimates.

Financial Management System Weaknesses Continued to Challenge HUD
Although efforts were underway in fiscal year 2014 to address our concerns, HUD's financial management system limitations and deficiencies remained a material weakness. Existing financial systems lacked key functionality, and in some cases, HUD did not have financial systems in place to meet financial management needs. As a result of HUD's inherent system limitations and weaknesses, its financial management systems could not be readily accessed and used by financial and program managers without extensive manipulation and excessive manual processing. This situation negatively impacted management's ability to perform necessary financial management functions and efficiently and effectively manage financial operations of the agency, resulting in lost opportunities for achieving mission goals and improving mission performance.

FHA Did Not Recognize Accounts Receivable When Claims to Cash Were Established
In fiscal year 2014, FHA was awarded seven cash settlements totaling $1.2 billion and collected $466.6 million of those settlements. Additionally, during fiscal year 2014, as part of its loss mitigation efforts to bring delinquent loans current, FHA paid $4.4 billion to lenders for partial claims; however, FHA did not receive promissory notes from the mortgagee for $1.5 billion of the claim payments as required. In the absence of a promissory note, the mortgagee was required to return the claim payment to FHA. Due to the nonroutine nature of legal settlements for FHA and the its contractor's backlog for recording promissory notes for partial claim payments, FHA did not properly recognize these receivables. As a result, as of September 30, 2014, adjustments were needed to (1) recognize FHA's anticipated collections of $722.2 million in settlement fees and (2) reclassify $703.2 million in net loans receivable related to partial claims paid without the corresponding promissory note.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable
Due to deficiencies in Ginnie Mae's control environment, accounting practices used, and financial systems deployed, we encountered problems related to the auditability of the accounting data and records used to support the completeness, accuracy, and reliability of the $6.6 billion in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2014. These assets included (1) mortgage loans held for investment ($5.3 billion), (2) advances against defaulted mortgage-backed security pools ($193 million), (3) short sale claims receivable ($50 million), (4) foreclosed-upon property ($616 million), (5) accrued

interest on mortgage loans held for investment ($414 million), and (6) properties held for sale ($17 million).

Factors contributing to these issues included the inability of Ginnie Mae's master-subservicers' servicing systems to handle loan-level transaction accounting at a granular level and the poor servicing performance of its previous master-subservicers as well as a weak and ineffective financial management governance structure. As a result, we were unable to perform all of the audit procedures that we determined necessary for obtaining sufficient appropriate evidence to express an opinion on Ginnie Mae's $6.6 billion in assets as of September 30, 2014.

Ginnie Mae's Internal Controls Over Financial Reporting Had Weaknesses

Ginnie Mae had ineffective internal controls over its financial reporting processes. The material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs incurred and accrued interests earned on Ginnie Mae's $6.6 billion portfolio of nonpooled loans, (2) errors in the preparation of financial reports, (3) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, and (4) improper classification and presentation of financial information in Ginnie Mae's balance sheet and statement of cash flows. Contributing factors were Ginnie Mae's inadequate monitoring, governance, and oversight of its accounting and reporting functions by executive management staff and system limitations in tracking accounting transactions at a loan level. These deficiencies resulted in material misstatements in Ginnie Mae's financial statements.

HUD's and Ginnie Mae's Financial Management Governance Were Ineffective[2]

Overall, we determined that HUD's financial management governance was 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.

While HUD took steps in fiscal year 2014 to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, stronger direction and involvement with program accounting was needed from OCFO; front-end risk assessments were not completed in a timely manner; and while accounting policies were developed during fiscal year 2014, there were deficiencies in their implementation. These conditions stemmed from HUD's inadequate implementation of the Chief Financial Officers Act of 1990 and the lack of a senior management council, which limited the ability of the Chief Financial Officer to facilitate and stress the importance of financial management and 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, did not have an integrated financial management system, and had not replaced its outdated legacy financial systems. As a result, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and instances of noncompliance with laws and regulations.

[2] This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, and Audit Report 2015-FO-0003, Fiscal Years 2014 and 2013 Financial Statements Audit for Ginnie Mae.

Our audit of Ginnie Mae found that it had failed to establish an appropriate financial management governance structure to ensure that it was capable of producing accurate, timely information and accounting records to plan, monitor, and report on its business operations. This failure in governance was the underlying cause of the problems cited in the Ginnie Mae financial statement audit report. We noted a number of problems in the oversight, management, and operations of Ginnie Mae's OCFO. Specifically, Ginnie Mae (1) left a number of critical financial management positions unfilled, which weakened its organizational structure and created a gap in its internal control system for monitoring a more than $6 billion portfolio of nonperforming loans; (2) failed to adequately identify, analyze, and respond to changes in the control environment and risk associated with the acquisition of a multi-billion-dollar servicing portfolio; and (3) failed to adequately establish accounting policies, procedures, and accounting systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolio. This condition occurred because of Ginnie Mae executive management's failure to respond appropriately to changes in its business environment and risks and the void in HUD's senior leadership created by the extended absence of a permanent HUD Chief Financial Officer. The combination of these failures in governance contributed to Ginnie Mae's inability to produce auditable financial statements for use by its external and internal users.

Significant Deficiencies

<u>Weaknesses in HUD's Administrative Control of Funds System Continue</u>
HUD did not have a fully implemented and complete administrative control of funds system, which provided oversight of both obligations and disbursements. Our review noted instances in which (1) disbursements were made before the legal point of obligation was documented in the funds control plan, which authorized the use of funds; (2) program offices did not follow HUD's administrative control of funds; (3) program codes were not included in funds control plans; and (4) funds control plans were out of date or did not reflect the controls and procedures in place. 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) timing issues related to the issuance of obligating documents. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act.

<u>HUD Continued To Report Significant Amounts of Invalid Obligations</u>
Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, three program offices did not complete their obligation reviews and verifications, which resulted in a total of $952.7 million in obligations not being reviewed. Additionally, we identified $210.5 million in invalid obligations not previously identified by HUD and $27.3 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year, which remained on the books as of September 30, 2014. These deficiencies were attributed to ineffective monitoring efforts and HUD's inability to promptly process contract closeouts. We also noted that as of September 30, 2014, HUD had not implemented prior-year recommendations to deobligate funds totaling

$135.4 million. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by a total of $373.2 million. Additionally, HUD lacked an established process to reconcile the subsidiary and general ledger obligation controlling accounts, causing differences of up to $466.1 million to not be identified on a timely basis or at all, resulting in balances in the general ledger that were at risk of being unsupported or incomplete.

Weaknesses in HUD's Rental Housing Assistance Program Monitoring Continued
While weakness in HUD's rental assistance program continued, HUD was working through previous Office of Inspector General (OIG) recommendations to improve monitoring of its more than 2,200 PHAs to ensure that they (1) report accurate financial data in a timely manner, (2) use their funds and leasing capacity, (3) comply with statutory objectives, and (4) verify tenant data to reasonably ensure correct housing subsidy payments. Although HUD had improved some aspects of its internal controls from previous years, more improvements are needed to ensure that these objectives are met. Specifically, (1) PIH continued to lack adequate assurance that the Voucher Management System self-reported data were accurate, (2) PHAs did not fully use their available funding, (3) PHAs continued to make significant amounts of improper payments, and (4) compliance with Moving to Work Demonstration program statutory requirements could not be evaluated because newly required reporting metrics were still under review. We attribute the majority of these shortcomings to agency priorities and the effects of sequestration.

The Emergency Homeowner's Loan Program Data in HUD's Loan Accounting System Were Not Reliable[3]
Data entered into HUD's Loan Accounting System (LAS) for the Emergency Homeowner's Loan Program (EHLP) were not reliable. Specifically, (1) the EHLP loan data initially entered into LAS were inaccurate, (2) the EHLP loan data in LAS were incomplete, (3) the data correction process used by HUD did not result in accurate data, (4) loan-level detail of accounting transactions processed on the EHLP loans in LAS was lost during the rebuild process, and (5) internal control weaknesses in EHLP contributed to the data inaccuracies. These conditions occurred because EHLP was implemented quickly, using existing systems and processes, and did not have a centralized office responsible for the administration and management of the program in its entirety. As a result, the EHLP data in LAS at the 2014 fiscal yearend were unreliable, did not support the loan receivable balances in the general ledger, and did not have the loan-level transaction detail required for a subsidiary ledger. Approximately $116 million in EHLP loans was not recorded in HUD's general ledger and financial statements.

HUD's Computing Environment Controls Had Weaknesses[4]
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 prior years, we reported on various weaknesses with general system controls and controls over certain applications as well as weak security management. These deficiencies increased risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation.

[3] Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014
[4] Audit Report 2015-DP-0005, Fiscal Year 2014 Review of Information Systems Controls in Support of the Financial Statements Audit, issued February 24, 2015

We audited general and application controls over selected information systems that support the preparation of HUD's financial statements. We also followed up on the status of previously reported application control weaknesses. Our review found information systems control weaknesses that could negatively affect HUD's ability to accomplish its assigned mission, protect its data and information technology assets, fulfill its legal responsibilities, and maintain its day-to-day functions.

Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Regulations require FHA to collect upfront mortgage insurance premiums before the endorsement of Single Family Forward loans and before providing insurance coverage. FHA recognized the premiums collected before loan endorsement as earned rather than deferred revenue, although it did not provide insurance coverage. This condition occurred because FHA's policy is to recognize cash collection as an inflow when received. Recognition of revenue at this point is a departure from GAAP. The inclusion of premium collections in the single-family liability for loan guarantee (LLG) balance for loans closed but not endorsed causes the LLG balance to be overstated and the annual reestimate expense to be understated.

In addition, FHA did not have a process to accrue the estimated liability for unpaid single-family suspended supplemental claims filed. FHA assumed that the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability.

Weaknesses Identified in Selected FHA Information Technology Systems

Our review of the general and application controls over the FHA Single Family Housing Enterprise Data Warehouse and the FHA subsidiary ledger system found weaknesses in the data warehouse and the FHA subsidiary ledger information systems. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may have been negatively impacted. The information used to provide input to the FHA financial statements could be adversely affected.

Ginnie Mae's Financial Management System Information Security Controls Did Not Fully Comply With Federal Requirements and Its Own Security Policies

Ginnie Mae did not ensure that information security controls over the Ginnie Mae Financial Accounting System (GFAS) fully complied with Federal requirements and Ginnie Mae's own security policies in its financial management system. GFAS is a financial management system that tracks, records, and reports on the agency's accounting information. This process involves information used in the aggregate set of accounting practices and procedures to allow for accurate and effective handling of government revenues, funding, and expenditures. GFAS supports the financial functions required to track financial events and provides financial information significant to the financial management of the agency. It also maintains financial information that is used for the preparation of OMB and U.S. Government Accountability Office (GAO) reporting requirements.

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 five 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. 14-02, 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 Did Not Substantially Comply with Federal Financial Management

We noted instances in which HUD's financial management system did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). HUD's continued noncompliance was largely due to a reliance on legacy financial systems and information security weaknesses. Additionally, we noted FFMIA noncompliance in Ginnie Mae systems. Ginnie Mae was unable to provide adequate support for nonpooled loan asset balances due to the financial system limitations. Manual procedures implemented to compensate for system weaknesses were insufficient to ensure the completeness and accuracy of these account balances, resulting in noncompliance with Federal financial system requirements, an element of FFMIA. This matter is discussed further in the Material Weaknesses section. While HUD continued to work toward financial management system modernization and FFMIA compliance, significant challenges remained.

Despite Substantial Progress, HUD Did Not Comply with the Antideficiency Act

In fiscal year 2014, HUD made demonstrable progress in moving older Antideficiency Act cases from OCFO to OMB for review and approval. However, for the sixth consecutive year, no Antideficiency Act violation was reported to the President, Congress, and the Comptroller General at the end of fiscal year 2014 as required. Of the 12 cases that had been open at least 1 year on September 30, 2014, 9 probable violations were at OMB for review, and 3 potential violations were still under review at HUD. Untimely disposition of Antideficiency Act cases could delay the implementation of corrective actions, including any needed safeguards required to prevent recurrence of the same violations. While HUD management had committed to reporting all violations when the HUD and OMB clearance processes are complete, the lack of timeliness led us to conclude that HUD did not fully comply with the Act.

HUD Did 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 the current recapture policies resulted in HUD's noncompliance with HOME Statute requirements. Further, HUD's corrective action to assess compliance on a grant-by-grant basis would apply only to fiscal year 2015 grants. Therefore, HUD incorrectly permitted some jurisdictions to retain and commit HOME Investment Partnerships Program grant funds beyond the statutory deadline. Additionally, 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.

HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010
OMB Circular A-123 defines compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) as meeting all seven of its requirements. For fiscal year 2013, HUD OIG's IPERA audit[5] deemed HUD not to be in compliance with IPERA because it did not meet the following three requirements: to (1) publish corrective action plans in the annual financial report, (2) meet its annual reduction target, and (3) report information on its recapture efforts. The audit found that HUD inaccurately reported on its corrective actions in its agency financial report, did not meet its annual reduction target rate, and did not accurately and sufficiently report on its recapture efforts.

FHA Did Not Comply With the Cranston-Gonzalez National Affordable Housing Act of 1990
The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to withstand a moderate recession. This capital requirement, termed the "capital ratio," is defined as the ratio of capital to unamortized insurance-in-force. The Act requires FHA to maintain a minimum capital ratio of 2 percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the HUD Secretary submit a report annually to Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and evaluate the quality control procedures and accuracy of information used in the process for underwriting loans guaranteed by the MMI Fund. This report for fiscal year 2014 reported the capital reserve ratio at 0.41 percent, which is below the required 2 percent.

Results of the Audit of FHA's Financial Statements
We performed a separate audit of FHA's fiscal years 2014 and 2013 financial statements. Our report on FHA's financial statements, dated November 14, 2014,[6] includes an unqualified opinion on FHA's financial statements, along with discussion of one material weakness, two significant deficiencies in internal controls, and one instance of noncompliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements
We performed a separate audit of Ginnie Mae's fiscal years 2014 and 2013 financial statements. Our report on Ginnie Mae's financial statements, dated February 27, 2015,[7] includes a disclaimer of opinion on these financial statements, along with discussion of four material weaknesses and one significant deficiency in internal control.

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[5] Audit Report 2014-FO-004, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued April 15, 2014
[6] Audit Report 2015-FO-0001, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2014 and 2013, issued November 14, 2014, was incorporated into this report.
[7] Audit Report 2015-FO-0003, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2014 and 2013, issued February 27, 2015, was incorporated into this report.

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 14-02. 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.

As stated in "other matters", we were not able to perform limited procedures related to management's discussion and analysis and HUD's Fiscal Year 2014 Agency Financial Report. We do not provide an opinion or provide any assurance on the information.

Because of the matters described in the Basis for Disclaimer of Opinion on 2014 Financial Statements 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 3, 2014, we provided a draft of the internal control and compliance sections of our report to the OCFO, appropriate assistant secretaries, and other departmental officials and requested that the OCFO coordinate a departmentwide response. The OCFO responded in a memorandum dated November 25, 2014, which is included in its entirety in our separate report, along with our complete evaluation of the response. We provided another opportunity for HUD to provide comments to our draft Independent Auditor's Report issued February 23, 2015. HUD did not provide any additional comments for consideration. HUD's response to our separate report was considered in preparing the final version of this report. While HUD did not provide formal comments to all reported control deficiencies and compliance with laws and regulations, management indicated agreement with most of OIG's findings and conclusions. Comments to the FHA and GNMA audit reports were evaluated separately and are included in their standalone audit reports.

HUD has implemented a new module within IDIS Online to address the material weakness regarding the Office of Community Planning and Development's use of the FIFO method for formula grant accounting. However, this implementation will not eliminate FIFO retroactively and the Department disagrees that such a change is warranted. Additionally, HUD disagrees with the statement that non-compliance with the HOME Statute will remain until the cumulative method of accounting for commitments is no longer used. OIG will continue to take exception with the continued use of the FIFO method and the cumulative method for determining compliance with the HOME statute until the effects on HUD's financial statements are determined to be immaterial.

HUD generally agreed with our findings regarding weaknesses in HUD's grant accrual estimation process. While CPD has revised its methodology for estimating grant accruals, PIH disagrees that their validation methodology was not sufficient. OIG continues to take the position that PIH's validation procedures were not sufficient in accordance with the accounting standards, which requires subsequent grantee reporting to be used to validate any estimates.

Lastly, HUD stated that they will address the material weakness regarding financial management systems with the conversion to a shared service provider, known as New Core. However HUD objects to the characterization of the financial statement consolidation process as costly and inefficient. OIG's position is supported by the increase in the number of material weaknesses reported over the past several years related to weaknesses in accurate financial reporting. OIG will evaluate and monitor progress in implementing New Core.

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.

Randy W. McGinnis
Assistant Inspector General for Audit

February 27, 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/
2015-FO-0001.	$1,486,544,478	$5,500,000
2015-FO-0002.		660,810,336
Totals	**$1,486,544,478**	**$666,310,336**

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 2014 and 2013 Consolidated Financial Statements and Notes

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from HUD's books and records in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The following financial statements are presented:

The **Consolidated Balance Sheet**, as of September 30, 2014 and 2013, which presents those resources owned or managed by HUD that are available to provide future economic benefits (assets), amounts owed by HUD that will require payments from those resources or future resources (liabilities), and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost**, which presents the net cost of HUD operations for the years ended September 30, 2014, and 2013. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position**, which presents the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2014, and 2013.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2014 and 2013, the status of these resources at September 30, 2014, and 2013, and the outlay of budgetary resources for the years ended September 30, 2014, and 2013.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

U.S. Department of Housing and Urban Development
Consolidated Balance Sheet
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014	2013 (Restated)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 121,703	$ 135,596
Investments (Note 5)	6,529	1,825
Accounts Receivable Net (Note 6)	-	1
Other Assets (Note 11)	33	15
Total Intragovernmental Assets	128,265	137,437
Investments (Note 5)	41	56
Accounts Receivable, Net (Note 6)	1,901	180
Direct Loan and Loan Guarantees, Net (Note 7)	10,868	9,986
Other Non Credit Reform Loans (Note 8)	3,569	4,001
General Property Plant and Equipment, Net (Note 9)	297	351
PIH Prepayments (10)	423	552
Other Assets (Note 11)	48	378
TOTAL ASSETS	**$ 145,412**	**$ 152,941**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 12)	16	17
Debt (Note 13)	27,661	26,078
Other Intragovernmental Liabilities (Notes 16)	1,802	4,660
Total Intragovernmental Liabilities	29,479	30,755
Accounts Payable (Note 12)	863	803
Accrued Grant Liabilities (Note 12)	1,501	2,213
Loan Guarantee Liability (Note 7)	31,779	39,306
Debt Held by the Public (Note 13)	8	20
Federal Employee and Veteran Benefits (Note 14)	74	77
Loss Reserves (Note 15)	735	700
Other Governmental Liabilities (Notes 16)	918	709
TOTAL LIABILITIES	**$ 65,357**	**$ 74,583**
Commitments and Contingencies (Note 17)	15	-
NET POSITION		
Unexpended Appropriations - Funds From Dedicated Collections (Note 19)	(224)	(215)
Unexpended Appropriations - Other Funds	56,442	59,995
Cumulative Results of Operations - Funds From Dedicated Collections (Note 19)	19,773	18,151
Cumulative Results of Operations - Other Funds	4,064	427
TOTAL NET POSITION - Funds From Dedicated Collections	19,549	17,936
TOTAL NET POSITION - All Other Funds	60,506	60,422
TOTAL NET POSITION	80,055	78,358
TOTAL LIABILITIES AND NET POSITION	**$ 145,412**	**$ 152,941**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Consolidated Statement of Net Cost
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014	2013 (Restated)
COSTS		
Federal Housing Administration		
Gross Cost (Note 22)	$ (3,108)	$ (6,718)
Less: Earned Revenue	(2,181)	(2,680)
Net Program Costs	(5,289)	(9,398)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(5,289)	(9,398)
Government National Mortgage Association		
Gross Cost (Note 22)	(59)	602
Less: Earned Revenue	(1,543)	(1,225)
Net Program Costs	(1,602)	(623)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(1,602)	(623)
Section 8		
Gross Cost (Note 22)	28,772	28,690
Less: Earned Revenue	-	-
Net Program Costs	28,772	28,690
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	28,772	28,690
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 22)	2,995	2,941
Less: Earned Revenue	-	-
Net Program Costs	2,995	2,941
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	2,995	2,941
Homeless Assistance Grants		
Gross Cost (Note 22)	1,881	1,915
Less: Earned Revenue	-	-
Net Program Costs	1,881	1,915
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,881	1,915
Housing for the Elderly and Disabled		
Gross Cost (Note 22)	1,196	1,161
Less: Earned Revenue	(178)	(192)
Net Program Costs	1,018	969
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,018	969
Community Development Block Grants		
Gross Cost (Note 22)	5,905	5,675
Less: Earned Revenue	-	-
Net Program Costs	5,905	5,675
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	5,905	5,675
HOME		
Gross Cost (Note 22)	1,064	1,407
Less: Earned Revenue	-	-
Net Program Costs	1,064	1,407
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,064	1,407
Other		
Gross Cost (Note 22)	6,504	6,620
Less: Earned Revenue	(40)	(34)
Net Program Costs	6,464	6,586
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	6,464	6,586
Costs Not Assigned to Programs	218	200
Earned Revenue Not Attributed to Programs	-	-
Consolidated		
Gross Cost (Note 22)	45,368	42,489
Less: Earned Revenue	(3,942)	(4,127)
NET COST OF OPERATIONS	**$ 41,426**	**$ 38,362**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Consolidated Statement of Changes in Net Position
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014			2013 (Restated)		
	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	$ 18,151	$ 426	$ 18,577	$ 17,525	$ (13,360)	$ 4,165
Adjustments:						
Corrections of Errors	-	(99)	(99)	-	(1)	(1)
Beginning Balances, As Adjusted	18,151	327	18,478	17,525	(13,361)	4,164
BUDGETARY FINANCING SOURCES:						
Appropriations Used	28	49,341	49,368	456	56,215	56,670
Non-exchange Revenue	1	-	1	1	-	1
Transfers In/Out Without Reimbursement	1	(1)	-	2	(2)	-
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	(5)	5	-	(1)	(13)	(14)
Imputed Financing	1	78	79	1	76	77
Other	-	(2,663)	(2,663)	-	(3,959)	(3,959)
Total Financing Sources	26	46,760	46,785	459	52,317	52,776
Net Cost of Operations	1,596	(43,023)	(41,427)	167	(38,529)	(38,362)
Net Change	1,622	3,737	5,358	626	13,788	14,414
CUMULATIVE RESULTS OF OPERATIONS	**$ 19,773**	**$ 4,064**	**$ 23,836**	**$ 18,151**	**$ 427**	**$ 18,578**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ (215)	$ 59,995	$ 59,780	$ 240	$ 52,229	$ 52,469
Adjustments:						
Corrections of Errors	21	22	43	-	(1,151)	(1,151)
Beginning Balances, As Adjusted	(194)	60,017	59,823	240	51,078	51,318
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	46,103	46,103	1	68,574	68,575
Other Adjustments	(2)	(337)	(339)	-	(3,442)	(3,442)
Appropriations Used	(28)	(49,341)	(49,369)	(456)	(56,215)	(56,671)
Total Budgetary Financing Sources	(30)	(3,575)	(3,605)	(455)	8,917	8,462
UNEXPENDED APPROPRIATIONS	**(224)**	**56,442**	**56,218**	**(215)**	**59,995**	**59,780**
NET POSITION	**$ 19,549**	**$ 60,506**	**$ 80,054**	**$ 17,936**	**$ 60,422**	**$ 78,358**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014		2013 (Restated)	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance Brought Foward, October	$ 28,153	$ 60,416	$ 17,483	$ 41,267
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	3	(3)
Unobligated balance brought forward, October 1, adjusted	28,153	60,416	17,486	41,264
Recoveries of prior year unpaid obligations	643	781	627	404
Other changes in unobligated balance	(611)	(8)	(496)	-
Unobligated balance from prior year budget authority, net	28,185	61,189	17,617	41,668
Appropriations (discretionary and mandatory)	45,790	-	65,002	-
Borrowing Authority (discretionary and mandatory)	-	8,770	-	19,194
Spending Authority from offsetting collections	14,305	27,683	24,315	59,366
Total Budgetary Resources	**$ 88,280**	**$ 97,642**	**$ 106,934**	**$ 120,228**
Status of Budgetary Resources:				
Obligations Incurred (Note 31)				
Direct	53,277	45,866	78,117	56,673
Reimbursable	270	2,018	449	3,139
Subtotal	53,547	47,884	78,566	59,812
Unobligated Balances				
Apportioned	16,096	13,580	17,581	25,128
Unapportioned	18,637	36,178	10,787	35,288
Unobligated balance, end of year	34,733	49,758	28,368	60,416
Total Status of Budgetary Resources	**$ 88,280**	**$ 97,642**	**$ 106,934**	**$ 120,228**
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	44,234	2,691	49,196	2,634
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	10	-	(4)	-
Obligations Incurred	53,547	47,884	78,566	59,812
Outlays, (gross) (-)	(55,950)	(47,395)	(82,897)	(59,352)
Actual Transfers, unpaid obligations (net) (+ or -)	(114)	115	-	-
Recoveries of prior year unpaid obligations (-)	(643)	(781)	(627)	(404)
Unpaid obligations, end of year (gross)	41,084	2,514	44,234	2,690
Uncollected Payments:				
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(17)	(66)	(16)	(74)
Change in uncollected customer payments, Fed sources (+ or -)	5	13	(1)	8
Uncollected payments, Fed sources, end of year (-)	(12)	(53)	(17)	(66)
Obligated balance, start of year (+ or -)	**$ 44,228**	**$ 2,625**	**$ 49,176**	**$ 2,560**
Obligated balance, end of year (net)	**$ 41,072**	**$ 2,461**	**$ 44,217**	**$ 2,625**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	60,095	36,453	89,318	78,560
Actual offsetting collections (discretionary and mandatory) (-)	(14,706)	(34,876)	(24,826)	(64,054)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	5	12	(1)	9
Budget Authority, net (discretionary and mandatory)	**$ 45,394**	**$ 1,589**	**$ 64,491**	**$ 14,515**
Outlays, gross (discretionary and mandatory)	55,950	47,395	82,897	59,352
Actual offsetting collections (discretionary and mandatory) (-)	(14,706)	(34,877)	(24,826)	(64,054)
Outlays, net (discretionary and mandatory)	41,244	12,518	58,071	(4,702)
Distributed offsetting receipts	(2,719)	-	(1,495)	-
Agency Outlays, net (discretionary and mandatory)	**$ 38,525**	**$ 12,518**	**$ 56,576**	**$ (4,702)**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2014 and 2013

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 $3.1 billion were disbursed in FY 2014 and $1.5 billion in FY 2013. 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 14 percent of HUD's consolidated revenues and financing sources for FY 2014 and 9 percent of HUD's consolidated revenues and financing sources for FY 2013.

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 2014 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 2014 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/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 2013 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 unauditied 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 11, 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 believe issue 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.

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, 2014, and 2013, were as follows (dollars in millions):

Description	2014			2013		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 121,668	$ 35	$ 121,703	$ 133,310	$ 2,286	$ 135,596
Investments (Note 5)	6,529	-	6,529	1,822	3	1,825
Accounts Receivable, Net (Note 6)	-	-	-	1	-	1
Other Assets (Note 11)	33	-	33	15	-	15
Total Intragovernmental Assets	$ 128,230	$ 35	$ 128,265	$ 135,148	$ 2,289	$ 137,437
Investments (Note 5)	41	-	41	56	-	56
Accounts Receivable, Net (Note 6)	1,856	45	1,901	159	21	180
Loan Receivables and Related Foreclosed Property, Net (Note 7)	10,868	-	10,868	9,986	-	9,986
Other Non-Credit Reform Loans Receivable, Net (Note 8)	3,569	-	3,569	4,001	-	4,001
General Property, Plant and Equipment, Net (Note 9)	297	-	297	351	-	351
PIH Prepayments (Note 10)	423	-	423	552	-	552
Other Assets (Note 11)	7	41	48	331	47	378
Total Assets	**$ 145,291**	**$ 121**	**$ 145,412**	**$ 150,584**	**$ 2,357**	**$ 152,941**

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, 2014, and 2013, were as follows (dollars in millions):

Description	2014	2013
Revolving Funds	$ 62,861	$ 64,404
Appropriated Funds	57,780	61,889
Trust Funds	13	7,066
Other	1,049	2,237
Total - Fund Balance	**$ 121,703**	**$ 135,596**

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, 2014, and 2013, were as follows (dollars in millions):

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	1,096	3,948	(54)	5,547	5,547	12	5,559
Total	**$ 29,675**	**$ 54,814**	**$ 43,599**	**$ (64)**	**$ 128,024**	**$ 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**

Status of Resources - 2013

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 25,075	$ 33,617	$ 3,170	$ (3)	$ 61,859	$ 61,856	$ 3	$ 61,859
Ginnie Mae	2	10,953	480	(19)	11,416	9,622	-	9,622
Section 8 Rental Assistance	561	40	8,363	-	8,964	8,964	-	8,964
PIH Loans and Grants	115	29	5,257	-	5,401	5,401	-	5,401
Homeless Assistance Grants	1,871	400	2,691	-	4,962	4,962	-	4,962
Section 202/811	391	158	2,863	-	3,412	3,412	-	3,412
CDBG	13,875	15	14,419	-	28,309	28,309	-	28,309
Home	190	16	3,819	-	4,025	4,025	-	4,025
Section 235/236	27	14	1,566	-	1,607	1,140	467	1,607
All Other	604	845	4,289	(61)	5,677	5,665	12	5,677
Total	**$ 42,711**	**$ 46,087**	**$ 46,917**	**$ (83)**	**$ 135,632**	**$ 133,356**	**$ 482**	**$ 133,838**

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	$ 25,075	$ 33,614	$ 3,170	$ (3)	61,856	$ 1,625	$ 63,481
Ginnie Mae	2	9,159	480	(19)	9,622	-	9,622
Section 8 Rental Assistance	561	40	8,363	-	8,964	11	8,975
PIH Loans and Grants	115	29	5,257	-	5,401	-	5,401
Homeless Assistance Grants	1,871	400	2,691	-	4,962	-	4,962
Section 202/811	391	158	2,863	-	3,412	-	3,412
CDBG	13,875	15	14,419	-	28,309	-	28,309
Home	190	16	3,819	-	4,025	-	4,025
Section 235/236	3	6	1,131	-	1,140	-	1,140
All Other	604	833	4,289	(61)	5,665	604	6,269
Total	**$ 42,687**	**$ 44,270**	**$ 46,482**	**$ (83)**	**$ 133,356**	**$ 2,240**	**$ 135,596**

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	$ -	$ 3	$ -	$ -	$ -	$ 3	$ -
Ginnie Mae	-	1,794	-	-	-	1,794	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	24	8	435	-	467	-	-
All Other	-	12	-	-	-	-	12
Total	**$ 24**	**$ 1,817**	**$ 435**	**$ -**	**$ 467**	**$ 1,797**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 1,625
Section 8 Rental Assistance	11
All Other	604
Total	**$ 2,240**

Breakdown of All Other

Description	Fund Balance
Other Repayments of Capital Investments and Recoveries and Manufactured Housing Fees Trust Fund	$ 545
Negative Subsidies and Downward Restimates of Subsidies	59
Total	**$ 604**

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: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates established by the U.S. Treasury as of September 30, 2014, were 0.01 percent. During FY 2013, interest rates ranged from 1.88 percent to 2.00 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2014, and 2013, were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2014	$ 6,521	$ 1	$ 7	$ 6,529	$ 6,530
FY 2013	$ 1,816	$ (1)	$ 10	$ 1,825	$ 1,868

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, 2014, and 2013, (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2014						
601 Program	$ 56	$ -	$ -	$ -	$ (15)	$ 41
Risk Sharing Debentures	-	-	-	-	-	-
Total	**$ 56**	**$ -**	**$ -**	**$ -**	**$ (15)**	**$ 41**
2013						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	57	1	-	-	(2)	56
Total	**$ 57**	**$ 1**	**$ -**	**$ -**	**$ (2)**	**$ 56**

Note 6: 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, 2014, and 2013, HUD was due $15 million and $17 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, 2014, and 2013, (dollars in millions):

	2014			2013		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -	$ 1	$ -	$ 1
Public						
Sustained Audit Costs	$ 64	$ -	$ 64	$ 10	$ -	$ 10
Bond Refundings	15	-	15	17	-	17
Section 8 Settlements	4	1	5	9	-	9
Section 236 Excess Rental Income	5	(1)	4	6	(2)	4
Other Receivables:	-					
FHA	2,328	(868)	1,460	109	(96)	13
Ginnie Mae	692	(360)	332	121	-	121
Other Receivables	24	(3)	21	8	(2)	6
Total Accounts Receivable	**$ 3,132**	**$ (1,231)**	**$ 1,901**	**$ 281**	**$ (100)**	**$ 181**

Note 7: 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 2014 and FY 2013:

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):

	2014				
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	$ -	$ -	$ (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**

	2013				
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	$ -	$ -	$ (5)	$ -	(5)
b) GI/SRI Direct Loan Program	15	11	(7)	-	19
Housing for the Elderly and Disabled	2,096	22	(10)	-	2,108
All Other					
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	479	84	(42)	-	521
Total	**$ 2,595**	**$ 117**	**$ (69)**	**$ 2**	**$ 2,645**

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

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

Direct Loan Programs	2013 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
All Other					
a) Green Retrofit Program	$ 75	$ 1	$ (70)	$ -	$ 6
b) Emergency Homeowners' Loan Program	82	1	(81)	-	2
c) EHLP Receipt Account	40	-	-	-	40
Total	**$ 197**	**$ 2**	**$ (151)**	**$ -**	**$ 48**

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

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	5	19
Total	**$ 5**	**$ 19**

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

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

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

Direct Loan Programs	2013 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	18	18
Total	**$ -**	**$ -**	**$ -**	**$ 18**	**$ 18**

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

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

Direct Loan Programs	2013 Total Modification	Interest Rate Re-estimates	Technical Re-stimates	Total Re-estimates
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
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	5	18
Total	**$ 5**	**$ 18**

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

Budget Subsidy Rates for Direct Loans

Direct Loan Programs	2014 Interest Differential	Defaults	Fees and Other Collections	Other	Total
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%

Direct Loan Programs	2013 Interest Differential	Defaults	Fees and Other Collections	Other	Total
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 2014	FY 2013
Beginning balance of the subsidy cost allowance	$ 151	$ 137
Add: subsidy expense for direct loans disbursed		
during the reporting years by component:	-	-
a) Interest rate differential costs	-	-
b) Default costs (net of recoveries)	-	-
c) Fees and other collections	-	-
d) Other subsidy costs	5	18
Total of the above subsidy expense components	5	18
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	(5)	(5)
e) Subsidy allowance amortization	1	1
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	152	151
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	(5)	-
b) Technical/default re-estimate	-	-
Total of the above re-estimate components	(5)	-
Ending balance of the subsidy cost allowance	**$ 147**	**$ 151**

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

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					
a) Single Family	$ 21	$ -	$ (13)	$ 20	$ 28
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**

2013	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					
a) Single Family	$ 18	$ -	$ (33)	$ 30	$ 15
b) Multi Family	2,225	228	(935)	1	1,519
c) HECM	5	2	(2)	7	12
Total	**$ 2,248**	**$ 230**	**$ (970)**	**$ 38**	**$ 1,546**

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

	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					
a) Single Family	$ 5,423	$ 1	$ (4,332)	$ 2,510	$ 3,602
b) Multi Family	818	-	(319)	1	500
c) HECM	3,506	1,563	(2,246)	85	2,908
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**

	2013				
	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					
a) Single Family	$ 3,023	$ 10	$ (4,875)	$ 4,651	$ 2,809
b) Multi Family	619	-	(212)	1	408
c) HECM	2,568	1,106	(1,243)	69	2,500
All Other					
a) Indian Housing Loan Guarantee	-	-	-	30	30
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	**$ 6,210**	**$ 1,116**	**$ (6,330)**	**$ 4,752**	**$ 5,748**

	2014	**2013**
Total Credit Program Receivables and Related Foreclosed Property, Net	$10,868	$9,986

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

	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**

Loan Guarantee Programs	2013 Outstanding Principal, Guaranteed Loans, Face Value	2013 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 1,167,538	$ 1,087,079
b) GI/SRI Funds	115,234	104,680
c) H4H Progam	117	113
All Other	5,718	5,713
Total	**$ 1,288,607**	**$ 1,197,585**

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

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

Loan Guarantee Programs	2013 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 14,671	$ 100,869	$ 145,918

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

Loan Guarantee Programs	2014 Outstanding Principal, Guaranteed Loans, Face Value	2014 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**

Loan Guarantee Programs	2013 Outstanding Principal, Guaranteed Loans, Face Value	2013 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 240,276	$ 237,443
b) GI/SRI Funds	23,344	23,191
c) H4H Program	-	-
All Other	794	793
Total	**$ 264,414**	**$ 261,427**

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

	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**

	2013		
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	$ 8	$ 39,124	$ 39,132
All Other	-	173	173
Total	**$ 8**	**$ 39,297**	**$ 39,305**

L. Subsidy Expense for Post-1991 Guarantees:

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

	2014				
Loan Guarantee Programs	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. Subsidy Expense for Prior Year Loan Guarantees (dollars in millions):

	2013				
Loan Guarantee Programs	Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 240,276	$ 7,135	$ (24,207)	$ (7)	$ (17,079)
b) MMI/CMHI Funds, HECM	14,671	536	(902)	-	(366)
c) GI/SRI Funds	23,344	571	(1,484)	-	(913)
d) H4H Program	-	-	-	-	-
All Other	-	14	-	-	14
Total	**$ 278,291**	**$ 8,256**	**$ (26,593)**	**$ (7)**	**$ (18,344)**

L3. Modification and Re-estimates (dollars in millions):

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

Loan Guarantee Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2013				
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 9,862	$ 9,862
b) GI/SRI Funds	-	-	(1,443)	(1,443)
All Other	-	-	(2)	(2)
Total	**$ -**	**$ -**	**$ 8,417**	**$ 8,417**

L4. Total Loan Guarantee Subsidy Expense (dollars in millions):

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ (6,470)	$ (7,582)
b) GI/SRI Funds	(64)	(2,356)
c) H4H Program	-	-
All Other	$ 101	$ 11
Total	**$ (6,433)**	**$ (9,927)**

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

Budget Subsidy Rates for Loan Guarantees for FY 2014 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	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%	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%			2.6%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing (weighted average)	0.5%			0.5%
Native Hawaiian Housing	0.1%			0.1%
Title VI Indian Housing	12.1%			12.1%

Budget Subsidy Rates for Loan Guarantees for FY 2013 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	3.0%	(9.4%)		(6.5%)
Single Family - HECM	2.4%	(6.2%)		(3.8%)
Single Family - Refinancing	10.2%	(7.7%)	(2.6%)	0.0%
Multi Family - Section 213	3.0%	(9.4%)		(6.5%)
GI/SRI				
Multifamily				
Section 221(d)(4)	4.4%	(6.9%)		(2.5%)
Section 207/223(f)	1.1%	(5.8%)		(4.7%)
Section 223(a)(7)	1.1%	(5.8%)		(4.7%)
Section 232	3.1%	(7.4%)		(4.3%)
Section 242	1.3%	(7.7%)		(6.4%)
H4H				
Single Family - Section 257				0.0%
All Other Programs				
CDBG, Section 108(b)	2.5%			2.5%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing	1.4%			1.4%
Native Hawaiian Housing	0.5%			0.5%
Title VI Indian Housing	10.9%			10.9%

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

Beginning Balance, Changes, and Ending Balance	2014	2013
Beginning balance of the loan guarantee liability	$ 41,638	$ 55,144
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	5,101	8,256
(c) Fees and other collections	(15,552)	(26,593)
(d) Othe subsidy costs	-	(7)
Total of the above subsidy expense components	$ (10,451)	$ (18,344)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	12,233	12,029
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	11,871	11,835
(e) Claim payments to lenders	(27,960)	(29,417)
(f) Interest accumulation on the liability balance	1,165	1,687
(g) Other	524	(27)
Ending balance of the subsidy cost allowance before re-estimates	$ 29,020	$ 32,907
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	5,387	1,316
(c) Adjustment of prior years credit subsidy re-estimates	(658)	7,414
Total of the above re-estimate components	4,729	8,730
Ending balance of the subsidy cost allowance	**$ 33,749**	**$ 41,637**
Less: unrealized Ginnie Mae claims from defaulted loans	$ (1,970)	$ (2,332)
Ending balance of the subsidy cost allowance	**$ 31,779**	**$ 39,305**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2014	2013
FHA	$ 576	$ 647
All Other	-	-
Total	**$ 576**	**$ 647**

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2014 and September 30, 2013, (dollars in millions):

	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	$ 4,844	$ (1,747)	$ 3,097
Advances Against Defaulted Mortgage-Backed Security Pools, net	82	-	82
Properties Held for Sale, net	14	-	14
Foreclosed Property	577	(204)	373
Short Sale Claims Receivable	22	(19)	3
Total	**$ 5,539**	**$ (1,970)**	**$ 3,569**

	2013		
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	$ 5,668	$ (2,332)	$ 3,336
Advances Against Defaulted Mortgage-Backed Security Pools, net	99		99
Properties Held for Sale, net	23		23
Foreclosed Property	481		481
Short Sale Claims Receivable	62	-	62
Total	**$ 6,333**	**$ (2,332)**	**$ 4,001**

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)
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.

During FY 2013, the majority of purchased mortgage loans were bought out due to borrower delinquency of more than 90 or 120 days depending on loan type (i.e., Single Family or Manufactured Housing).

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 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. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is no longer reasonably assured, and places these loans on nonaccrual status. Ginnie Mae recognizes interest income for loans on nonaccrual status when cash is received.

Ginnie Mae separately assesses the collectability of mortgage loans bought out of the defaulted portfolios that are uninsured and loans that are non-FHA insured for which Ginnie Mae only receives a portion of the outstanding principal balance. If the principal and interest payments are not fully guaranteed from the insurer (i.e., there is a lack of insurance), or loans are delinquent at acquisition, it is probable that Ginnie Mae will be unable to collect all contractually required payments receivable. Accordingly, these loans are considered to be credit impaired and are accounted for under ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the time of acquisition, these loans are recorded at the lower of their acquisition cost or present value of expected amounts to be received. As non-performing loans, these loans are placed on nonaccrual status.

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 held for investment (HFI). The mortgage loans HFI are reported net of allowance for loan losses. Mortgage loans HFI also includes mortgage loans that are undergoing the foreclosure process.

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. 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. Mortgage loans HFI, net as of September 30, 2014, and 2013, was $4,844 billion and $3,336 billion, 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. The advances against defaulted MBS pools balance is $82 million in FY 2014 and $99 million in FY 2013.

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. The Properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The properties are appraised by independent entities on a regular basis throughout the year. Ginnie Mae expects sale of the property to occur prior to one year from the date of the foreclosure. As a result, Ginnie Mae does not depreciate these assets. Ginnie Mae records an allowance to account for potential sale costs including maintenance and miscellaneous expenses, along with a loss percentage based on historical data, which includes declines in the fair value of foreclosed properties. Properties Held for Sale, net, as of September 30, 2014 and 2013 was $14 and $23 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. Foreclosed Property, net as of September 30, 2014, was $577 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. Short Sale Claims Receivable, net as of September 30, 2014, and 2013, was $22 and $62 million, respectively.

Note 9: 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, 2014, and September 30, 2013, (dollars in millions):

Description	2014			2013		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 3	$ -	$ 3	$ 3	$ (1)	$ 2
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	166	(132)	34	186	(158)	28
Internal Use Software in Development	260	-	260	321	-	321
Total	**$ 429**	**$ (132)**	**$ 297**	**$ 510**	**$ (159)**	**$ 351**

Note 10: 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. Since the recognization of NRA in the FY 2013 financial statements, approximately $1 billion has either been transitioned to HUD project reserves or spent by the PHAs on program expenses. PIH has estimated NRA balances of $423 million and $552 million for FY 2014 and FY 2013 respectively.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2014, and September 30, 2013, (dollars in millions):

Description	2014				
	FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$ 1	$ -	$ 2	$ 30	$ 33
Total Intragovernmental Assets	1	-	2	30	33
Mortgagor Reserves for Replacement - Cash	$ 41	$ -	$ -	$ -	$ 41
Other Assets	6	-	-	1	7
Total	**$ 48**	**$ -**	**$ 2**	**$ 31**	**$ 81**

Description	2013 FHA	2013 Ginnie Mae	2013 Section 8	2013 All Other	2013 Total
Intragovernmental Assets:					
Other Assets	$ 1	$ -	$ -	$ 14	$ 15
Total Intragovernmental Assets	**1**	**-**	**-**	**14**	**15**
Mortgagor Reserves for Replacement - Cash	$ 47	$ -	$ -	$ -	$ 47
Other Assets	331	-	-	-	331
Total	**$ 379**	**$ -**	**$ -**	**$ 14**	**$ 393**

Note 12: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2014, and 2013, (dollars in millions):

Description	2014			2013		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 16	$ -	$ 16	$ 17	$ -	$ 17
Debt	27,661	-	27,661	26,078	-	26,078
Other Intragovernmental Liabilities	1,786	16	1,802	4,643	17	4,660
Total Intragovernmental Liabilities	$ 29,463	$ 16	$ 29,479	$ 30,738	$ 17	$ 30,755
Accounts Payable	863	-	863	803	-	803
Accrued Grant Liabilities	1,501	-	1,501	2,213	-	2,213
Liabilities for Loan Guarantees	31,779	-	31,779	39,306	-	39,306
Debt	8	-	8	20	-	20
Federal Employee and Veterans' Benefits	-	74	74	-	77	77
Loss Liability	735	-	735	700	-	700
Other Liabilities	816	102	918	627	82	709
Total Liabilities	**$ 65,165**	**$ 192**	**$ 65,357**	**$ 74,407**	**$ 176**	**$ 74,583**

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 13: 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, 2014, (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
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**

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2013, (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 11,566	$ 14,512	$ 26,078
Held by the Public	60	(40)	20
Total	$ 11,626	$ 14,472	$ 26,098
Classification of Debt:			
Intragovernmental Debt			$ 26,078
Debt held by the Public			20
Total			**$ 26,098**

Interest paid on borrowings as of September 30, 2014, and 2013, was $963 million and $921 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2014 and FY 2013, FHA borrowed $27,528 million and $25,940 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 0.75 percent to 7.59 percent during FY 2014 and FY 2013.

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 14: 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 2014, HUD recorded imputed costs of $79 million which consisted of $42 million for pension and $37 million for health care benefits. During FY 2013, HUD recorded imputed costs of $78 million which consisted of $39 million for pension and $39 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 $74 million as of September 30, 2014, and $77 million as of September 30, 2013. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $79 million noted above, HUD recorded benefit expenses totaling $170 million for FY 2014 and $172 million for FY 2013.

Note 15: MBS Loss Liability

For FY 2014 and FY 2013, Ginnie Mae's MBS loss liability was $735 million and $700 million, respectively. The estimate is established to the extent management believes losses due to defaults are probable and estimable and FHA, USDA, VA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. The MBS loss liability represents probable and estimable losses net of recoveries for currently defaulted issuers as well as probable and estimable future defaults by issuers of MBS. An increase to the loss liability is established through a provision charged to operations while a decrease is a recapture of expense charged to operations. The loss liability is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios.

In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Based on its analysis of its loss exposure, Ginnie Mae increased its MBS loss liability balance in FY 2013. Ginnie Mae management believes that its MBS loss liability is adequate to cover probable and estimable losses of default-related losses due to Ginnie Mae guaranteed MBS.

Note 16: Other Liabilities

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	-	5	5
Miscellaneous Receipts Payable to Treasury	-	82	82
Advances to Federal Agencies	-	10	10
Total Intragovernmental Liabilities	$ 1,705	$ 97	$ 1,802
Other Liabilities			
FHA Other Liabilities	$ 323	$ -	$ 323
FHA Escrow Funds Related to Mortgage Notes	307	-	307
Ginnie Mae Deferred Income	107	22	129
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	**$ 2,522**	**$ 198**	**$ 2,720**

The following shows HUD's Other Liabilities as of September 30, 2013, (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ 3,983	$ -	$ 3,983
Unfunded FECA Liability	17	-	17
Employer Contributions and Payroll Taxes	-	3	3
Miscellaneous Receipts Payable to Treasury	-	642	642
Advances to Federal Agencies	-	15	15
Total Intragovernmental Liabilities	$ 4,000	$ 660	$ 4,660
Other Liabilities			
FHA Other Liabilities	$ 81	$ -	$ 81
FHA Escrow Funds Related to Mortgage Notes	343	-	343
Ginnie Mae Deferred Income	-	139	139
Deferred Credits	-	18	18
Deposit Funds	-	17	17
Accrued Unfunded Annual Leave	82	-	82
Accrued Funded Payroll Benefits	-	27	27
Contingent Liability	-	-	-
Other	-	2	2
Total Other Liabilities	**$ 4,506**	**$ 863**	**$ 5,369**

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 17: 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, 2014, and 2013, was $1,291 billion and $1,283 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2014, and 2013, was $1,186 billion and $1,192 billion, respectively, as disclosed in Note 7J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2014, and 2013, was $150 billion and $146 billion, respectively. As of September 30, 2014, and 2013, the insurance-in-force (the outstanding balance of active loans) was $106 billion and $101 billion, respectively as disclosed in Note 7J. 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, 2014, and 2013, was approximately $1,526 billion and $1,457 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, 2014, and 2013, were $98 billion and $118 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 2014 and FY 2013, Ginnie Mae issued a total of $114 billion and $99 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, 2014, and 2013, were $487 billion and $468 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, 2014, and 2013, 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 18: 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 $24 million or more. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2014. As a result, no contingent liability has been recorded.

Ginnie Mae is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions will have an effect on Ginnie Mae's consolidated financial statements as of September 30, 2014. As a result, a contingent liability of $14.9 million 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 $117 thousand 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 19: 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 2014, Ginnie Mae was authorized to use $19.5 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, 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	$ 13,470	$ 6	$ 337	$ 12	$ 134	$ -	$ -	$ 13,959
Investments	151	-	-	-	-	-	-	151
Accounts Receivable	333	4	-	-	21	-	(4)	354
Loans Receivable	-	-	501	-	6	-	-	507
Other Non-Credit Reform Loans Receivable	5,539	-	-	-	-	-	-	5,539
General Property, Plant and Equipment	32	-	-	-	-	-	-	32
Other	-	-	-	-	-	-	-	-
Total Assets	**$ 19,525**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (4)**	**$ 20,542**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 9	$ -	$ -	$ 9
Accounts Payable - Intragovernmental		-	-	-	-	-	(2)	(2)
Accounts Payable - Public	108	-	-	-	-	-	-	108
Loan Guarantees	-	-	-	-	-	-	-	-
Loss Liability	735	-	-	-	-	-	-	735
Other Liabilities - Intragovernmental	-	-	-	-	-	-	(2)	(2)
Other Liabilities - Public	145	-	-	-	-	-	-	145
Total Liabilities	$ 988	$ -	$ -	$ -	$ 9	$ -	$ (4)	$ 993
Unexpended Appropriations	$ 1	$ -	$ (377)	$ -	$ 152	$ -	$ -	$ (224)
Cumulative Results of Operations	18,536	10	1,215	12	-	-	-	19,773
Total Net Position	$ 18,537	$ 10	$ 838	$ 12	$ 152	$ -	$ -	$ 19,549
Total Liabilities and Net Position	**$ 19,525**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (4)**	**$ 20,542**
Statement of Net Cost For the Period Ended								
Gross Costs	$ (59)	$ -	$ (14)	$ 9	$ 23	$ 3	$ -	$ (38)
Less Earned Revenues	(1,543)	(2)	(6)	(5)	(1)	(1)	-	(1,558)
Net Costs	**$ (1,602)**	**$ (2)**	**$ (20)**	**$ 4**	**$ 22**	**$ 2**	**$ -**	**$ (1,596)**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 16,935	$ 8	$ 817	$ 15	$ 179	$ 2	$ -	$ 17,956
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	1,602	2	20	(4)	(22)	(2)	-	1,596
Change in Net Position	$ 1,602	$ 2	$ 21	$ (3)	$ (27)	$ (2)	$ -	$ 1,593
Net Position End of Period	**$ 18,537**	**$ 10**	**$ 838**	**$ 12**	**$ 152**	**$ -**	**$ -**	**$ 19,549**

The following shows funds from dedicated collections as of September 30, 2013, (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	$ 9,622	$ 4	$ 296	$ 13	$ 168	$ 2	$ -	$ 10,105
Investments	1,821	-	-	-	-	-	-	1,821
Accounts Receivable	129	4	-	-	3	-	(11)	125
Loans Receivable	-	-	523	-	5	-	-	528
Other Non-Credit Reform Loans Receivable	6,333	-	-	-	-	-	-	6,333
General Property, Plant and Equipment	37	-	-	-	-	-	-	37
Other	-	-	-	-	-	-	-	-
Total Assets	**$ 17,942**	**$ 8**	**$ 819**	**$ 13**	**$ 176**	**$ 2**	**$ (11)**	**$ 18,949**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 15	$ -	$ -	$ 15
Accounts Payable - Intragovernmental		-	-	-	1	-	(10)	(9)
Accounts Payable - Public	167	-	-	-	-	-	-	167
Loan Guarantees	-	-	-	-	-	-	-	-
Loss Liability	700	-	-	-	-	-	-	700
Other Liabilities - Intragovernmental	-	-	-	-	1	-	(1)	-
Other Liabilities - Public	140	-	-	-	-	-	-	140
Total Liabilities	$ 1,007	$ -	$ -	$ -	$ 17	$ -	$ (11)	$ 1,013
Unexpended Appropriations	$ 1	$ -	$ (376)	$ -	$ 160	$ -	$ -	$ (215)
Cumulative Results of Operations	16,934	8	1,195	13	(1)	2	-	18,151
Total Net Position	$ 16,935	$ 8	$ 819	$ 13	$ 159	$ 2	$ -	$ 17,936
Total Liabilities and Net Position	**$ 17,942**	**$ 8**	**$ 819**	**$ 13**	**$ 176**	**$ 2**	**$ (11)**	**$ 18,949**
Statement of Net Cost For the Period Ended								
Gross Costs	$ 602	$ 3	$ 7	$ 7	$ 456	$ 1	$ (4)	$ 1,072
Less Earned Revenues	(1,225)	(3)	(10)	(3)	(1)	(1)	4	(1,239)
Net Costs	**$ (623)**	**$ -**	**$ (3)**	**$ 4**	**$ 455**	**$ -**	**$ -**	**$ (167)**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 16,311	$ 8	$ 815	$ 15	$ 614	$ 2	$ -	$ 17,765
Appropriations Received	-	-	-	-	1	-	-	1
Transfers In/Out Without Reimbursement	-	-	-	2	(1)	-	-	1
Imputed Costs	1	-	-	-	-	-	-	1
Other Adjustments	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	1	-	-	-	-	1
Net Cost of Operations	623	-	3	(4)	(455)	-	-	167
Change in Net Position	$ 624	$ -	$ 4	$ (2)	$ (455)	$ -	$ -	$ 171
Net Position End of Period	**$ 16,935**	**$ 8**	**$ 819**	**$ 13**	**$ 159**	**$ 2**	**$ -**	**$ 17,936**

Note 20: 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):

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)	(62)	28,707	2,961	1,870	1,149	5,890	1,055	6,196	-	43,678
Subtotal Costs	$ (3,108)	$ (59)	$ 28,772	$ 2,995	$ 1,881	$ 1,196	$ 5,905	$ 1,064	$ 6,504	$ -	$ 45,150
Unassigned Costs									$218		$218
Total Costs											$ 45,368
Intragovernmental Earned Revenue	$ (2,119)	$ (153)	$ -	$ -	$ -	$ -	$ -	$ -	$ (25)	$ -	$ (2,297)
Public Earned Revenue	(62)	(1,390)	-	-	-	(178)	-	-	(15)	-	(1,645)
Total Earned Revenue	(2,181)	(1,543)	-	-	-	(178)	-	-	(40)	-	(3,942)
Net Cost of Operations	**$ (5,289)**	**$ (1,602)**	**$ 28,772**	**$ 2,995**	**$ 1,881**	**$ 1,018**	**$ 5,905**	**$ 1,064**	**$ 6,682**	**$ -**	**$ 41,426**

2013	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	$ 943	$ 3	$ 71	$ 34	$ 30	$ 61	$ 19	$ 10	$ 309	$ (4)	$ 1,476
Public Costs	(7,661)	599	28,619	2,907	1,885	1,100	5,656	1,397	6,311	-	40,813
Subtotal Costs	$ (6,718)	$ 602	$ 28,690	$ 2,941	$ 1,915	$ 1,161	$ 5,675	$ 1,407	$ 6,620	$ (4)	$ 42,289
Unassigned Costs									$200		$200
Total Costs											$ 42,489
Intragovernmental Earned Revenue	$ (2,604)	$ (99)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20)	$ 4	$ (2,719)
Public Earned Revenue	(76)	(1,126)	-	-	-	(192)	-	-	(14)	-	(1,408)
Total Earned Revenue	(2,680)	(1,225)	-	-	-	(192)	-	-	(34)	4	(4,127)
Net Cost of Operations	**$ (9,398)**	**$ (623)**	**$ 28,690**	**$ 2,941**	**$ 1,915**	**$ 969**	**$ 5,675**	**$ 1,407**	**$ 6,786**	**$ -**	**$ 38,362**

Note 21: 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 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	$ (4,041)	$ (1,621)	$ (5,662)
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	$ 43,676	$ (1,644)	$ 42,032
Not Assigned to Programs:			
Income Security	218	-	218
Total with the Public	$ 218	$ -	$ 218
TOTAL:			
Commerce and Housing Credit	$ (3,058)	$ (3,893)	$ (6,951)
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:	**$ 45,368**	**$ (3,942)**	**$ 41,426**

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2013 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 946	$ (2,704)	$ (1,758)
Community and Regional Development	91	(6)	85
Income Security	446	(12)	434
Other Multiple Functions	(3)	(2)	(5)
Financial Statement Eliminations	$ (3)	$ 3	$ -
Total Intragovernmental	1,477	(2,721)	(1,244)
With the Public:			
Commerce and Housing Credit	$ (7,084)	$ (1,396)	$ (8,480)
Community and Regional Development	5,794	(1)	5,793
Income Security	41,657	(10)	41,647
Administration of Justice	72	-	72
Other Multiple Functions	374	-	374
Total with the Public	$ 40,813	$ (1,407)	$ 39,406
Not Assigned to Programs:			
Income Security	200	-	200
Total with the Public	$ 200	$ -	$ 200
TOTAL:			
Commerce and Housing Credit	$ (6,138)	$ (4,100)	$ (10,238)
Community and Regional Development	5,885	(7)	5,878
Income Security	42,303	(22)	42,281
Administration of Justice	72	-	72
Other Multiple Functions	371	(2)	369
Financial Statement Eliminations	(3)	3	-
TOTAL:	**$ 42,490**	**$ (4,128)**	**$ 38,362**

Note 22: 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 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	(1,201)	(401)	-	-	-	(1,602)
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	295	-	1,018
Community Development Block Grants	1,181	295	886	3,543	-	5,905
HOME	287	575	-	202	-	1,064
All Other Programs	308	3,901	797	1,428	30	6,464
Total	(2,445)	31,254	2,387	9,982	30	41,208
Costs Not Assigned To Programs						$ 218
Total						41,426

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2013 (dollars in millions):

Programs	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
FHA	$ (6,109)	$ (1,410)	$ (376)	$ (1,503)	$ -	$ (9,398)
Ginnie Mae	(467)	(156)	-	-	-	(623)
Section 8 Rental Assistance	-	23,461	187	5,042	-	28,690
Low Rent Public Housing Loans and Grants	410	2,158	74	299	-	2,941
Homeless Assistance Grants	-	1,340	575	-	-	1,915
Housing for the Elderly and Disabled	-	603	85	281	-	969
Community Development Block Grants	1,135	284	851	3,405	-	5,675
HOME	380	760	-	267	-	1,407
All Other Programs	412	3,788	799	1,591	(4)	6,586
Total	(4,239)	30,828	2,195	9,382	(4)	38,162
Costs Not Assigned To Programs						$ 200
Total						38,362

Note 23: 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 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**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2013 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 44	$ 27	$ -	$ -	$ 71
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 44	$ 27	$ -	$ -	$ 71
Gross Costs with the Public	$ 18,872	$ 9,666	$ 78	$ 3	$ 28,619
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,872	$ 9,666	$ 78	$ 3	28,619
Net Program Costs	**$ 18,916**	**$ 9,693**	**$ 78**	**$ 3**	**$ 28,690**
Low Rent Public Housing Loans & Grants					
Intragovernmental Gross Costs	$ 34	$ -	$ -	$ -	$ 34
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 34	$ -	$ -	$ -	$ 34
Gross Costs with the Public	$ 2,904	$ -	$ -	$ 3	$ 2,907
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 2,904	$ -	$ -	$ 3	$ 2,907
Net Program Costs	**$ 2,938**	**$ -**	**$ -**	**$ 3**	**$ 2,941**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 30	$ 30
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ -	$ 30	$ 30
Gross Costs with the Public	$ -	$ -	$ 1,830	$ 55	$ 1,885
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ -	$ -	$ 1,830	$ 55	$ 1,885
Net Program Costs	**$ -**	**$ -**	**$ 1,830**	**$ 85**	**$ 1,915**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 19	$ -	$ 19
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 19	$ -	$ 19
Gross Costs with the Public	$ 77	$ -	$ 5,494	$ 85	$ 5,656
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 77	$ -	$ 5,494	$ 85	$ 5,656
Net Program Costs	**$ 77**	**$ -**	**$ 5,513**	**$ 85**	**$ 5,675**
All Other					
Intragovernmental Gross Costs	$ 92	$ 154	$ 41	$ 23	$ 310
Intragovernmental Earned Revenues	-	-	-	(20)	(20)
Intragovernmental Net Costs	$ 92	$ 154	$ 41	$ 3	$ 290
Gross Costs with the Public	$ 4,468	$ 559	$ 1,332	$ (48)	$ 6,311
Earned Revenues	-	(14)	-	-	(14)
Net Costs with the Public	$ 4,468	$ 545	$ 1,332	$ (48)	$ 6,297
Direct Program Costs	**$ 4,560**	**$ 699**	**$ 1,373**	**$ (45)**	**$ 6,587**
Costs Not Assigned to Programs	$ 64	$ 91	$ 45	$ -	$ 200
Net Program Costs (including indirect costs)	**$ 4,624**	**$ 790**	**$ 1,418**	**$ (45)**	**$ 6,787**

Note 24: 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 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)**

	Fiscal Year 2013				
	Single Family Forward Program	**HECM Program**	**Multifamily/Healthcare Program**	**Administrative Costs**	**Total**
Costs					
Intragovernmental Gross Costs	$ 727	$ 53	$ 142	$ 21	$ 943
Intragovernmental Earned Revenues	(1,720)	(823)	(62)	-	(2,605)
Intragovernmental Net Costs	$ (993)	$ (770)	$ 80	$ 21	$ (1,662)
Gross Costs with the Public	$ (5,839)	$ (565)	$ (1,927)	$ 671	$ (7,660)
Earned Revenues	(28)	(2)	(46)	-	(76)
Net Costs with the Public	$ (5,867)	$ (567)	$ (1,973)	$ 671	$ (7,736)
Net Program Costs	**$ (6,860)**	**$ (1,337)**	**$ (1,893)**	**$ 692**	**$ (9,398)**

Note 25: 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, 2014, (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations	Undelivered Orders: Permanent Indefinite	Undelivered Orders: Investment Authority	Undelivered Orders: 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**

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2013, (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations	Undelivered Orders: Permanent Indefinite	Undelivered Orders: Investment Authority	Undelivered Orders: Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 174	$ 109	$ -	$ 2,061	$ 2,344
Ginnie Mae	-	-	-	428	428
Section 8 Rental Assistance	8,360	-	-	-	8,360
Low Rent Public Housing Loans and Grants	5,010	-	-	-	5,010
Homeless Assistance Grants	2,455	-	-	-	2,455
Housing for the Elderly and Disabled	2,824	-	-	-	2,824
Community Development Block Grants	13,316	-	-	-	13,316
HOME Partnership Investment Program	3,274	-	-	-	3,274
Section 235/236	1,100	466	-	-	1,566
All Other	3,962	-	-	-	3,962
Total	**$ 40,475**	**$ 575**	**$ -**	**$ 2,489**	**$ 43,539**

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, 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**

The following chart shows HUD's administrative commitments as of September 30, 2013, (dollars in millions):

		Reservations		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 185	$ -	$ -	$ 185
Low Rent Public Housing Loans and Grants	24	-	-	24
Homeless Assistance Grants	124	-	-	124
Housing for the Elderly and Disabled	66	-	-	66
Community Development Block Grants	4,234	-	-	4,234
HOME Partnership Investment Program	186	-	-	186
Section 235/236	-	-	-	-
All Other	145	-	-	145
Total	**$ 4,964**	**$ -**	**$ -**	**$ 4,964**

Note 26: 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, 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**

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, 2013, (dollars in millions):

		Total
Unobligated Balance, beginning of period	$	241
Recoveries		-
Budget Authority		15,181
Spending Authority from Offsetting Collections		-
Non-Expenditure Transfers, net		-
Other Balances Withdrawn		-
Total Budgetary Resources		**15,422**
Status of Budgetary Resources		
Obligations Incurred	$	2,205
Unobligated Balance, available		13,217
Unobligated Balance, not available		-
Total Status of Budgetary Resources	**$**	**15,422**
Change in Obligated Balance		
Obligated Balance, net beginning of period	$	2,698
Obligations Incurred		2,205
Gross Outlays		(858)
Recoveries		-
Obligated Balance, net end of period	**$**	**4,045**
Net Outlays	**$**	**858**

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	$	12,585	$	1,986
Mississippi		5,539		4,678		861
Texas		3,751		1,756		1,995
Florida		393		328		65
Other States		2,288		2,059		229
Total	**$**	**26,542**	**$**	**21,406**	**$**	**5,136**

Note 27: 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
2014			
Direct	$ 929	$ 98,214	$ 99,143
Reimbursable	-	2,288	2,288
Total	**$ 929**	**$ 100,502**	**$ 101,431**

	Category A	Category B	Total
2013			
Direct	$ 893	$ 133,898	$ 134,791
Reimbursable	-	3,587	3,587
Total	**$ 893**	**$ 137,485**	**$ 138,378**

Note 28: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2013 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 227,163	$ 138,378	$ (1,493)	$ 53,369
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(694)	(31)	-	-
Difference #2 - The negative subsidy reported by Ginnie Mae as an offsetting receipt is reported as a negative outlay in the President's Budget	-	-	-	-
Difference #3 - Activity not included in the President's Budget related to the general fund receipts account	-	-	28	-
Difference #4 - Ginnie Mae amounts precluded from obligation	(216)	-	-	-
Difference #5 - Rounding issues	(6)	-	-	3
United States Budget	**$ 226,247**	**$ 138,347**	**$ (1,465)**	**$ 53,372**

Note 29: 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, 2014, and September 30, 2013, (dollars in millions):

	2014	2013
Budgetary Resources Obligated		
Obligations Incurred	$ 101,431	$ 138,378
Spending Authority from Offsetting Collections and Recoveries	(43,412)	(84,712)
Obligations Net of Offsetting Collections	$ 58,019	$ 53,666
Offsetting Receipts	(2,719)	(1,495)
Net Obligations	$ 55,300	$ 52,171
Other Resources		
Transfers In/Out Without Reimbursement	$ (2,663)	$ (3,959)
Imputed Financing from Costs Absorbed by Others	79	77
Other Resources	-	1
Net Other Resources Used to Finance Activities	$ (2,584)	$ (3,881)
Total Resources Used to Finance Activities	$ 52,716	$ 48,290
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	$ 2,801	$ 4,826
Credit Program Resources that Increase LLG or Allowance for Subsidy	-	80,982
Credit Program Resources not Included in Net Cost (Surplus) of Operations	45,001	(55,840)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(45,435)	(33,354)
Resources that Fund Expenses from Prior Periods	(6,025)	(21)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(947)	(51)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (4,605)	$ (3,458)
Total Resources Used to Finance the Net Cost of Operations	$ 48,111	$ 44,832
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 4,613	$ 8,723
Increase in Exchange Revenue Receivable from the Public	(171)	(208)
Change in Loan Loss Reserve	27	(3)
Revaluation of Assets or Liabilities	-	1
Depreation and Amortization	9	16
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(97)	(440)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(10,457)	(18,358)
Increase in Annual Leave Liability	-	-
Other	(609)	3,799
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (6,685)	$ (6,470)
Net Cost of Operations	**$ 41,426**	**$ 38,362**

Note 30: Restatement of the Department's Fiscal Year 2013 Financial Statements

In FY 2014, the Department restated its FY 2013 financial statements to correct material errors in the Consolidated Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position. The FY 2013 restatement was due to the restimate of prepayments from our tenant-based rental assistance program and the establishment of grant accruals by the Department. The restated financial statements by HUD also reflect the accounting error relating to net restricted assets maintained by PHAs under the Housing Choice Voucher Program, which resulted in additional assets and operating expenses reported by the Department. The impact of these errors resulted in the Department's equity reported on the consolidated financial statement to be overstated by $565 million for FY 2013.

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 is in the process of modifying 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). 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. The Department will disclose a restatement related to CPD's programs once HUD determines the financial statements and corresponding line items impacted.

Recognition of NRA Balances

HUD restated its FY 2013 financial statements to correct the impact of the errors resulting from the amount of PIH's Net Restricted Asset (NRA) balances in HUD's consolidated balance sheet. Beginning in 2005, PHAs have maintained NRA balances as a result of funding provided by the Department under the Housing Choice Voucher Program. The NRA balances have been significantly depleted over the years due to reduced renewal funding levels and sequestration.

In calendar year 2012, PIH implemented new cash management requirements and procedures for the disbursement by HUD of housing assistance payments funds provided to PHAs under the Housing Choice Voucher program in accordance with Department of Treasury's guidelines. PIH Notices further stipulated that NRAs maintained by PHAs as of December 31, 2012, were to be transitioned to HUD held reserves under the Department's cash management policies. The implementation of the Department's cash management policies have not been fully implemented and as a result, PHAs continue to hold NRA balances to cover future subsidiary costs of the Housing Voucher Program.

PIH has implemented a forecasting model to project the NRA balances maintained by the PHAs. The OIG has reported that PIH does not have adequate controls in place to ensure that the Voucher Management System's self-reported data is accurate and deemed that manual processes involved in the calculation to be an internal control weakness. The Department recognizes that the expenses of the program are self-reported by the PHAs and subject to audit verification by the OIG and the results of PIH's ongoing monitoring reviews. The amount of costs incurred by PHAs under the program are reported through PIH's Voucher Management System and used by program staff to adjust the amount of the NRA balances during the year. The expense recognized by the Department in the Statement of Net Cost and its impact on the net cost of operations reported on the Statement of Changes in Net Position is based on the difference between the beginning and ending NRA balances reported for FY 2013, and FY 2012, respectively. The Department contends that prior reviews of PIH activity and reliance on IPA audits provide a reasonable basis to book the estimate to accurately reflect the full costs of the PIH voucher program.

The Department previously reported an error in the beginning balances of $986 million and $452 million dollars in its FY 2013 and FY 2014 financial statements, respectively, as a result of understating its equity reported on its balance sheets for the current and prior fiscal years. A prepayment of $986 million and $452 million was also recognized in the Statement of Budgetary Resources for FY 2013 and FY 2014, respectively, to account for the related asset established in the Department's Consolidated Balance Sheet. Based on revised NRA estimates provided by PIH in FY 2014, the amount of the error disclosed by the Department was increased to $1.1 billion and $552 million for FY 2013 and FY 2014 respectively. The increase in the estimated NRA balances decreased the amount of expenses reported in the Statement of Net Cost by $137 million and $100 million for FY 2013 and FY 2014 respectively. The reclassification from a paid to pre-paid status has no impact on the restated Statement of Budgetary Resources since the amounts for unobligated balances, gross outlays and unpaid obligations, end of year are not impacted under the USSGL

Recognition of Grant Accrual Estimates

The Federal Accounting Standards Advisory Board issued Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*, effective for periods beginning after September 30, 2010. In response to the OIG recommendation, the Department issued a policy for estimating accruals for grant programs administered by HUD and restated its FY 2013 financial statements to reflect the implementation of the OCFO policy. The restatement of HUD's financial statements for FY 2013 focused on significant grant programs administered by Community Planning and Development, Public and Indian Housing and the Office of Housing.

The estimates provided by the program offices resulted in increasing the Department's liabilities by $2.2 billion and $1.5 billion for FY 2013 and FY 2014 respectively. The increase in the estimated liability increased the amount of expenses reported in the Statement of Net Cost by $72 million and $870 million for FY 2013 and FY 2014 respectively as a result of reversing accruals during the fiscal year based on assumptions incorporated in the Department's policy. The reclassification of obligated balances from an undelivered order to a delivered order has no impact on the Statement of Budgetary Resources.

Below are the Department's FY 2013 restated financial statements to correct accounting errors not previously reported (dollars in millions):

Balance Sheet (dollars in millions)	**September 30, 2013 Consolidated Financial Statements (without restatement)**	**September 30, 2013 Consolidated Financial Statements (with restatement)**	**Change**
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 4)	$ 135,596	$ 135,596	$ -
Investments (Note 5)	1,825	1,825	-
Accounts Receivable, Net (Note 6)	-	1	(1)
Other Assets (Note 11)	15	15	-
Total Intragovernmental	$ 137,436	$ 137,437	$ (1)
Investments (Note 5)	$ 56	$ 56	$ -
Accounts Receivable, Net (Note 6)	180	180	-
Direct Loan and Loan Guarantees, Net (Note 7)	9,986	9,986	-
Other Non-Credit Reform Loans (Note 8)	4,001	4,001	-
General Property, Plant and Equipment, Net (Note 9)	351	351	-
PIH Prepayments (Note 10)	452	552	(100)
Other Assets (Note 11)	378	378	-
TOTAL ASSETS	$ 152,840	$ 152,941	$ (101)
LIABILITIES			
Intragovernmental Liabilities			
Accounts Payable (Note 12)	$ 17	$ 17	$ -
Debt (Note 13)	26,078	26,078	-
Other Intragovernmental Liabilities (Note 16)	4,660	4,660	-
Total Intragovernmental	$ 30,755	$ 30,755	$ -
Accounts Payable (Note 12)	$ 803	$ 803	$ -
Accrued Grant Liabilities (Note 12)	-	2,213	(2,213)
Loan Guarantee Liability (Note 7)	39,306	39,306	-
Debt Held by the Public (Note 13)	20	20	-
Federal Employee and Veteran Benefits (Note 14)	77	77	-
Loss Reserves (Note 15)	700	700	-
Other Governmental Liabilities (Note 16)	709	709	-
TOTAL LIABILITIES	$ 72,370	$ 74,583	$ (2,213)
Net Position			
Unexpended Appropriations - Earmarked Funds (Note 19	$ (215)	$ (215)	$ -
Unexpended Appropriations - Other Funds	62,107	59,995	2,112
Cumulative Results of Operations - Earmarked Funds (Note 19)	18,151	18,151	-
Cumulative Results of Operations - Other Funds	427	427	-
Total Net Position	$ 80,470	$ 78,358	$ 2,112
Total Liabilities and Net Position	$ 152,840	$ 152,941	$ (101)

Statement of Changes in Net Position (dollars in millions)		September 30, 2013 Consolidated Financial Statements (without restatement)		September 30, 2013 Consolidated Financial Statements (with restatement)		Change
Cumulative Results of Operations:						
Beginning Balances	$	4,165	$	4,165	$	-
Adjustments						-
Changes in Accounting Principles		-		-		-
Corrections of Errors		(1)		(1)		-
Beginning Balances, As Adjusted	$	4,164	$	4,164	$	-
Budgetary Financing Sources:						
Other Adjustments	$	-	$	-	$	-
Appropriations Used		56,696		56,670		26
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	$	(14)	$	(14)	$	-
Imputed Financing		77		78		(1)
Other		(3,958)		(3,959)		1
Total Financing Sources		52,802		52,776		26
Net Cost of Operations		(38,388)		(38,362)		(26)
Net Change	$	14,414	$	14,414	$	-
Cumulative Results of Operations	**$**	**18,578**	**$**	**18,578**	**$**	**-**
Unexpended Appropriations:						
Beginning Balances	$	52,469	$	52,469	$	-
Adjustments						
Changes in Accounting Principles		-		-		-
Corrections of Errors		987		(1,151)		2,138
Beginning Balances, As Adjusted	$	53,456	$	51,318	$	2,138
Budgetary Financing Sources:						
Appropriations Received	$	68,575	$	68,575	$	-
Appropriations Transferred In/Out		-		-		-
Other Adjustments		(3,443)		(3,443)		-
Appropriations Used		(56,696)		(56,670)		(26)
Total Budgetary Financing Sources	$	8,436	$	8,462	$	(26)
Unexpended Appropriations	$	61,892	$	59,780	$	2,112
Net Position	$	80,470	$	78,358	$	2,112

Statement of Net Cost (dollars in millions)		September 30, 2013 Consolidated Financial Statements (without restatement)		September 30, 2013 Consolidated Financial Statements (with restatement)		Change
Program Costs						
Gross Costs	$	42,515	$	42,489	$	26
Less: Earned Revenue		(4,127)		(4,127)		-
Net Program Costs	$	38,388	$	38,362	$	26
Net Cost of Operations	$	38,388	$	38,362	$	26

Restatement of HUD's Statement of Budgetary Resources

In FY 2014, Ginnie Mae's Statement of Budgetary Resources was restated to reflect the proper presentation of its Guarantees of Mortgage Backed Securities Financing Account as a non-budgetary resource as required by OMB Circular A-11 and OMB Circular A-136. This non-budgetary account is used to record all cash flows to and from the Government resulting from the loan guarantees committed in 1992 and beyond (including modifications of loan guarantees that resulted from obligations in any year). The accounting error resulted in the misstatement of budgetary resources initially reported in its FY 2013 financial statements published in Annual Financial Report. In addition, the OCFO restated balances related to the Emergency Homeowner's Relief Financing Account and the Green Retrofit Program for Multifamily Financing Account to comply with the Federal Credit Reform Act of 1990. As in the case of Ginnie Mae's programs, these non-budgetary accounts are used to record all cash flows to and from the Government resulting from the loan guarantees committed in 1992 and beyond (including modifications of loan guarantees that resulted from obligations in any year). For your reference, we have provided a summary report documenting the amount that was reclassified as non-budgetary resources by the Department.

Statement of Budgetary Resources (dollars in millions)	Total Budgetary Resources (without restatement)	Total Budgetary Resources (with restatement)	Difference	Ginnie Mae Non- Budgetrary Resources (with restatement)	CFO Non-Budgetary Resources (with restatement) *
(Dollars in Millions)					
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 18,266	$ 17,483	$ 783	$ 777	$ 6
Adjustments to Unobligated Balance Brought Forward, October 1	1	3	(2)	(2)	-
Unobligated balance from prior year budget authority, net	18,267	17,486	781	777	4
Recoveries of Prior Year Unpaid Obligations	626	627	(1)	(1)	-
Other changes in unobligated balance	(496)	(496)	-	-	-
Unobligated balance from prior year budget authority, net	$ 18,397	$ 17,617	$ 780	$ 777	$ 3
Appropriations (discretionary and mandatory)	$ 65,002	$ 65,002	$ -	$ -	$ -
Borrowing Authority (discretionary and mandatory)	1	-	1	1	-
Spending Authority from offsetting collections	28,927	24,315	4,612	4,600	12
Total Budgetary Resources	112,327	106,934	5,393	5,377	16
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred					
Direct	$ 78,124	$ 78,117	$ 7	$ 7	$ -
Reimbursable	3,587	449	3,138	3,139	(1)
Subtotal	81,711	78,566	3,145	3,139	6
Unobligated Balances					
Apportioned	$ 17,600	$ 17,581	$ 19		$ 19
Unapportioned	13,016	10,787	2,229	2,238	(9)
Subtotal	30,616	28,368	2,248	2,238	10
Total Status of Budgetary Resources	$ 112,327	$ 106,934	$ 5,393	$ 5,377	$ 16
CHANGE IN OBLIGATED BALANCE					
Unpaid Obligations					
Unpaid obligations, brought forward, Oct 1	$ 49,357	$ 49,196	$ 161	$ 111	$ 50
Adjustments to unpaid obligations, start of year (+ or -)	(3)	(4)	1		1
Obligations incurred	81,711	78,566	3,145	3,139	6
Outlays (gross) (-)	(86,053)	(82,897)	(3,156)	(3,136)	(20)
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(626)	(627)	1	1	-
Unpaid Obligations, end of year (gross)	44,386	44,234	152	114	38
Uncollected Payments					
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	$ (71)	$ (16)	$ (55)	$ (6)	$ (49)
Adjustments to uncollected payments, Fed sources, start of year	-	-	-		
Change in uncollected payments, Fed sources (+ or -)	10	(1)	11	(2)	13
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	-		
Uncollected payments, Fed sources, end of year (-)	(61)	(17)	(44)	(8)	(36)
			$ -		
Obligated Balance, start of year (+ or -)	$ 49,285	$ 49,176	$ 109	$ 105	$ 4
Obligated Balance, end of year (+ or -)	44,325	44,217	108	106	2
BUDGET AUTHORITY, NET					
Budget authority, gross (discretionary and mandatory)	$ 93,929	$ 89,318	$ 4,611	$ 4,600	$ 11
Actual offsetting collections (discretionary and mandatory) (-)	(29,448)	(24,826)	(4,622)	(4,598)	(24)
Change in uncollected customer payments from Federal Sources	10	(1)	11	(2)	13
Budget Authority, net (discretionary and mandatory) SubTotal	$ 64,491	$ 64,491	$ -	$ -	$ -
Outlays, net (discretionary and mandatory)					
Gross Outlays	$ 86,053	$ 82,897	$ 3,156	$ 3,136	$ 20
Actual offsetting collections (discretionary and mandatory) (-)	(29,447)	(24,826)	(4,621)	(4,598)	(23)
	56,605	58,071	(1,466)	(1,462)	(4)
Distributed offsetting receipts	(1,495)	(1,495)	-	-	-
Agency Outlays, net (discretionary and mandatory)	55,110	56,576	(1,466)	(1,462)	(4)

*** Funds 4357 and 4589**

Note: Numbers may not add to total due to rounding.