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

HUD's Fiscal Years 2017 and 2016 (Restated) Consolidated Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2018-FO-0005
November 16, 2017

To: Thomas Harker, Acting Deputy Chief Financial Officer for Financial Management and Accounting, F

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

Subject: HUD's Fiscal Years 2017 and 2016 (Restated) Consolidated Financial Statements Audit

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

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

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

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

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Highlights

What We Audited and Why

In accordance with the Chief Financial Officers Act of 1990, as amended, we are required to annually audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) and the stand-alone financial statements of the Federal Housing Administration and the Government National Mortgage Administration (Ginnie Mae). Our objective was to express an opinion on the fairness of HUD's consolidated financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. This report presents our independent auditor's report on HUD's fiscal years 2017 and 2016 (restated) consolidated financial statements and reports on internal controls and compliance with laws and regulations.

What We Found

We expressed a disclaimer of opinion on HUD's fiscal years 2017 and 2016 (restated) consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters relate to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing community planning and development program funds, (2) the $3.6 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that we could not audit due to inadequate support, (3) unvalidated grant accrual estimates, and (4) the improper accounting for certain HUD assets and liabilities. Additionally, due to weaknesses in its financial reporting process, we were unable to review note 3 and note 7 to the consolidated financial statements. This report contains nine material weaknesses, six significant deficiencies, and three instances of noncompliance with applicable laws and regulations. Additional details of the material weaknesses, significant deficiencies, and instances of noncompliance with laws and regulations and related recommendations are included in separate audit reports entitled (1) Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, audit report 2018-FO-0004; (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2017 and 2016 (Restated), audit report 2018-FO-0003, and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated), audit report 2018-FO-0002.

What We Recommend

We make no recommendations in this report because it is supplemented by three separate reports as described above to provide specific recommendations to HUD management.

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Background and Objective

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 17-03, Audit Requirements for Federal Financial Statements, to audit the U.S. Department of Housing and Urban Development's (HUD) principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements.

In planning our audit of HUD's principal financial statements, we considered internal controls over financial reporting and tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the consolidated principal financial statements. Providing an opinion on internal controls or compliance with selected provisions of laws, regulations, and government policies was not an objective, and, accordingly, we do not express such an opinion.

Management is responsible for

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Establishing, maintaining, and evaluating internal controls and systems to provide reasonable assurance that the broad objectives of the Federal Financial Management Improvement Act of 1996 (FFMIA) are met.
- Complying with applicable laws and regulations.

In auditing HUD's principal financial statements, we were required by Government Auditing Standards to obtain reasonable assurance about whether HUD's principal financial statements were presented fairly, in accordance with generally accepted accounting principles (GAAP), in all material respects. We believe that our audit provides a reasonable basis for our disclaimer of opinion.

This report is intended solely for the use of HUD management, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report[1]

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

Report on the Financial Statements

Introduction

The Chief Financial Officers Act of 1990 requires HUD to prepare the accompanying consolidated balance sheets as of September 30, 2017 and 2016 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and according to OMB Bulletin 17-03.

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, which include the design, implementation, and maintenance of internal controls relevant to the

[1] This report is supplemented by three separate reports issued by HUD's Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been included in the Internal Control and Compliance With Laws and Regulations sections of the independent auditor's report. The supplemental reports are available on the HUD OIG internet site at https://www.hudoig.gov and are entitled (1) Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2018-FO-0004, issued November 15, 2017); (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2017 and 2016 (Restated) (audit report 2018-FO-0003, issued November 15, 2017); and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated) (audit report 2018-FO-0002, issued November 14, 2017).

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 17-03, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects in conformity with accounting principles generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion section, 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

During our fiscal year 2017 audit, we identified several matters for which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2017 and 2016 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined that multiple material financial statement line items were impacted and the issues identified were pervasive and material to the fiscal years 2017 and 2016 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.

The matters that we identified related to (1) improper budgetary accounting, (2) a disclaimer of opinion on the Government National Mortgage Associations' (Ginnie Mae) financial statements, (3) unvalidated grant accrual estimates, and (4) improper and unreliable accounting for assets and liabilities. Additional details are discussed below.

> *Improper budgetary accounting*. HUD continued to use budgetary accounting for its Office of Community Planning and Development (CPD) programs that was not performed in accordance with Federal GAAP, which resulted in misstatements in HUD's combined statement of budgetary resources. Therefore, we could not assess whether the balances reported were reasonable.

HUD used a first-in first-out (FIFO) method[2] to disburse and commit CPD program funds, which was not in accordance with GAAP for Federal grants. This method was used to process disbursements for CPD formula programs. The effects of these methodologies were considered pervasive because of the dollar risk exposure and volume of CPD grant activities from several thousand grantees (as of September 30, 2017, approximately $1.5 billion in disbursements and $1.5 billion[3] in undisbursed obligations were impacted that were related to the HOME Investment Partnerships, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Solutions Grant programs) 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.

As a result, we determined that financial transactions related to CPD's formula-based programs that entered HUD's accounting system had been processed incorrectly. Although FIFO has been removed for disbursements made from fiscal year 2015 and forward grants, this method will not be removed retroactively from prior-year grants. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 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 could not be readily determined to reliably support the budgetary balances reported by HUD at yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

Disclaimer of opinion on Ginnie Mae financial statements. In fiscal year 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3.6

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

[3] HUD determined that $2.0 billion in undisbursed obligations is susceptible to FIFO as of September 30, 2017. This differs from our calculation by approximately $428.5 million. Despite the difference in the two amounts, both entities have determined that the funds susceptible to FIFO as of September 30, 2017, are material. We attribute the variance to a different methodology and basis used for the calculation. We based our computation on the undisbursed obligations in the Program Accounting System (PAS) for all FIFO-affected PAS codes with balances in 2014 and prior years, whereas the basis for HUD's calculation was all grant numbers in the Integrated Disbursement and Information System (IDIS) with an undisbursed obligations balance on 2014 and older funds for all FIFO-affected programs.

billion (net of allowance) in NPA[4] from Ginnie Mae's defaulted issuers' portfolio, which were consolidated into HUD's fiscal years 2017 and 2016 financial statements.

Although efforts were underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not in place. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion on the NPA. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's NPA and related accounts as of September 30, 2017. This impacted the following areas reported on HUD's consolidated financial statements: (1) noncredit reform loans totaling $2.9 million, net of allowance, for the loan losses due to payment of probable claims by the Federal Housing Administration (FHA); (2) $549.5 million in elimination from FHA's loan guarantee liability; (3) $61 million in accounts receivables, and (4) note 8 to HUD's consolidated financial statements.

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

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's (FASAB) Technical Release (TR) 12. FASAB TR 12 provides guidance to agencies on developing reasonable estimates of accrued grant liabilities to report on their financial statements. We were unable to obtain sufficient, appropriate audit evidence that the fiscal years 2017 and 2016 estimates were reasonable. This lack of evidence was due to (1) CPD's not validating its accrued grant liability estimates, (2) CPD's inability to provide adequate supporting documentation for grant disbursements in a timely manner, and (3) insufficient time to perform all of the audit procedures we deemed necessary to obtain sufficient, appropriate audit evidence to form an opinion on the estimate in lieu of adequate validation procedures by CPD. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding CPD's accrued grant liability estimates. Therefore, we could not form an opinion on CPD's accrued grant liability estimates for fiscal years 2017 and 2016. CPD's estimated accrued grant liabilities were $2.2 billion and $2.3 billion for fiscal years 2017 and 2016, respectively. These amounts accounted for 87 percent of

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[4] These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment, including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million).

HUD's total $2.5 billion accrued grant liabilities in fiscal year 2017 and 85 percent of HUD's total $2.7 billion accrued grant liabilities in fiscal year 2016.

Improper and unreliable accounting for assets and liabilities. HUD did not properly account for several types of assets and liabilities reported on its balance sheet, causing misstatements or unreliable balances. Specifically, (1) balances reported for non-FHA loan guarantees and property, plant, and equipment balances could not be relied upon; (2) payments advanced to Indian Housing Block Grant (IHBG) grantees for investment purposes were not recorded as advances; and (3) the Office of Public and Indian Housing's (PIH) prepayment balances could not be audited due to a significant change to its methodology that was not communicated until late in the fiscal year. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding these balances.

There were significant unreconciled material differences between balances in HUD's general ledger and subledgers for HUD's loan guarantee liabilities, and HUD was unable to provide sufficient evidence to support the related financial statement line items. As of September 30, 2017, HUD was still researching $697.4 million in subsidiary ledger to general ledger differences that could not be supported. The Sections 108 and 184 loan guarantee programs had $273.3 million in unreconciled differences related to the 2015 data conversion as of September 30, 2017. There were also $22.9 million in unreconciled differences related to current-year loan guarantee activity, bringing the total amount of unreconciled differences to $296.2 million. As a result, we could not rely on HUD's non-FHA loan guarantee balances, including its loan guarantee liability ($267.3 million) and unpaid obligations ($12.4 million) reported on HUD's consolidated financial statements.

HUD's accounting for its property, plant, and equipment did not comply with Federal GAAP. Specifically, HUD (1) could not support balances related to internal use software totaling $320 million, (2) did not account for $61.5 million in leasehold improvements from capitalized projects completed in headquarters since 2009, and (3) did not adequately account for other property and equipment balances. These conditions occurred because HUD (1) did not have a reliable and integrated asset management system, (2) lacked controls to ensure communication of information regarding acquisitions between stakeholders, and (3) lacked oversight from the Office of the Chief Financial Officer (OCFO) to detect and correct deficiencies. As a result, the total HUD property, plant, and equipment balance of $323.8 million[5] could not be relied upon.

HUD's accounting for its PIH prepayments had deficiencies. First, HUD adjusted its methodology used to determine the total amount of PIH prepayments reported on its consolidated balance sheet as of September 30, 2017. The change in methodology was not communicated to us until September 27, 2017. Due to the timing of the change, we were

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[5] The total property, plant, and equipment balance reported on HUD's fiscal years 2017 and 2016 consolidated financial statements was $413 million, which included property, plant, and equipment held by Ginnie Mae. The amount that we could not express an opinion on constituted 78.4 percent of the consolidated balance.

unable to perform sufficient audit procedures necessary to obtain reasonable assurance of the change and the reasonableness of the PIH prepayment balance determined as a result. The balance totaled $336.5 million as of September 30, 2017. Secondly, HUD authorized recipients of Federal funds to retain funding advanced to them before incurring eligible expenses; however, HUD did not recognize these funds as advances on its financial statements in accordance with Statements on Federal Financial Accounting Standards 1. As of June 30, 2017, approximately $149 million was being held in investment accounts with IHBG grantees, which represented an advance in accordance with the standards. However, HUD elected to present these as expenses on its statement of net cost once they were disbursed. The amount omitted from the financial statements as of September 30, 2017, was not readily available. However, as a result of the omission, we believe the PIH prepayment reported on HUD's consolidated balance sheet and expenses reported on HUD's consolidated statement of net cost were likely misstated as of September 30, 2017.

We identified another matter that would have required a modification to the opinion related to HUD's consolidated financial statement notes. Due to internal control deficiencies with HUD's financial reporting process, (1) HUD was unable to provide adequate supporting documentation for note 3, and (2) note 7 contained material errors identified by us. The errors identified in note 7 also impacted note 24, resulting in additional errors. Changes were made to note 7 and note 24 as a result of our identification, however we were unable to complete our review of the changes to ensure all errors were corrected. Therefore, we are unable to obtain sufficient, appropriate evidence to render an opinion on note 3 and note 7, and the related effects to note 24 of HUD's fiscal years 2017 and 2016 consolidated financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2017 and 2016 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Emphasis of Matter

Restatement of Fiscal Year 2016 Financial Statements

As discussed in note 24 to the financial statements, the fiscal year 2016 financial statements have been restated for the correction of errors related to (1) restatements of Ginnie Mae financial statements and (2) restatements of FHA financial statements.

As part of our fiscal year 2017 audit of Ginnie Mae, we determined that these adjustments were appropriate and had been properly applied except for one restatement related to the allowance for loan loss accounts. We cannot opine on this restatement as the allowance for loan loss account balances continues to be unreliable. Ginnie Mae has performed restatements of fiscal years 2014, 2015, and 2016 financial statements. We caution readers that the scope of our audit on those restatement adjustments was limited. For those prior-year restatement adjustments that we have not audited, we will audit them when all of Ginnie Mae's basic financial statements are in an auditable state, which is not expected by Ginnie Mae until fiscal year 2018. Our opinion has not been modified with respect to these matters in fiscal year 2017.

As part of our fiscal year 2017 audit of FHA, a material error was identified in the 2016 Note 7-Direct Loans and Loan Guarantees and Note 12-Gross Costs of FHA's financial statements that required correction of balances in fiscal year 2017. With the exception of the differences attributed to the timing of information being transferred between systems, as discussed in our report on internal controls, note 7 was restated to correct balances reported to the home equity conversion program (HECM) current-year endorsements, the cumulative current outstanding balance and maximum potential liability, and the single-family forward guaranteed loans outstanding and new guaranteed loans disbursed. Note 7 was also restated to correct the allocation of the technical-default reestimates between the subsidy expense and interest expense components. Additionally, note 12 was restated to correct gross cost with the public to adjust the allocation of reestimate and interest expenses. For these reasons, the opinion expressed on FHA's financial statements for fiscal year 2016, including its net costs, changes in net position, and budgetary resources, issued November 14, 2016, was no longer appropriate because the accompanying notes to the financial statements, as published at that time, contained material misstatements. Accordingly, our opinion on the audited financial statements of FHA for 2016 is withdrawn, because they could no longer be relied upon, and is replaced by the auditor's report on the restated financial statements.

Additional details on these items can be found in note 24 to the consolidated financial statements.

There were other potential material misstatements in the fiscal year 2016 financial statements in which no adjustments had been made, which are not described in note 24 in accordance with OMB Circular A-136. Specifically, regarding (1) the use of the FIFO method to liquidate obligations under CPD's formula grant programs, (2) lack of proper accounting for (a) prepayments, account receivables, and account payables related to PIH's HCVP cash management process, (b) property, plant and equipment; and (c) balances related to Section 184 and 108 loan guarantees; and (3) Ginnie Mae's nonpooled asset balances and continued inappropriate accounting of FHA reimbursable costs. No adjustments had been made because the specific amounts of misstatements and their related effects were unknown.

FHA's Loan Guarantee Liability

The loan guarantee liability is an estimate of the net present value of future claims, net of future premiums, and future recoveries from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. In 2017, FHA made a couple of model methodology changes. These changes included changing the methodology for (1) calculating for the net present value of the future cash flows using a single path (President's Economic Assumption released in March 2017) instead of using an average of 100 paths for claim and prepayments, which was the methodology used in 2016, and (2) discounting the timing of the cash flows from the end of the year to the middle of the year for certain programs. We caution our readers to be cognizant of the fact that the comparability of the loan liability guarantee numbers in 2017, when compared to 2016, could be impacted because of the changes. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

In its fiscal year 2017 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by FASAB and OMB Circular A-136.

Other Information

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

<u>Report on Internal Controls Over Financial Reporting</u>

Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls are summarized below and were provided in separate audit reports to HUD management.[6] 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A **significant deficiency** is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A **material weakness** is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Material Weaknesses

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

<u>HUD-wide Weaknesses in Internal Controls Over Financial Reporting</u>

Our audits of the FHA financial statements, Ginnie Mae financial statements, and the HUD consolidated financial statements identified weaknesses in internal controls over financial reporting. While some of the weaknesses identified were specific to FHA, Ginnie Mae, and HUD component financial reporting processes, the impact of the weaknesses identified at the component entities also impacted the effectiveness and accuracy of HUD's financial reporting process when consolidating component entity financial information to prepare HUD's consolidated financial statements and accompanying notes.

- <u>HUD financial reporting.</u> OCFO did not comply with financial reporting requirements and made management decisions that exposed its financial reporting process to increased risk of error. For example, (1) HUD has not designed or implemented effective

[6] Audit Report 2018-FO-0004, Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 15, 2017; Audit Report 2018-FO-0003, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 15, 2017; Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Fiscal Years 2017 and 2016 (Restated) Financial Statements, issued November 14, 2017

complementary customer agency controls to leverage Federal shared service provider (FSSP) controls; (2) HUD's OCFO did not provide third quarter notes to OMB or the Office of Inspector General (OIG) for review, and OCFO management implemented a new note preparation process in the eleventh month of the fiscal year before completing validation of the new process; (3) HUD's OCFO did not record budget authority provided in the fiscal year 2017 Continuing Resolution amounting to $5.2 billion in the first quarter, of which $4.2 billion remained unrecorded in the second quarter; (4) Ginnie Mae incorrectly implemented an accounting change that materially misstated its third quarter statements; and (5) HUD's OCFO continued performing a significant number of manual journal entries to clean up its general ledger. These deficiencies occurred because internal controls over HUD's financial reporting process were weak, allowing significant decisions to be made without careful consideration of (1) GAAP, (2) U.S. Department of the Treasury and OMB requirements, and (3) the impact on HUD's operations. The result of these conditions was that (1) OCFO duplicated processes instead of leveraging the U.S. Treasury, Bureau of Fiscal Services, Administrative Resource Center's services; (2) OIG and OMB staff were unable to review and provide comments to third quarter notes, increasing the risk of errors going undetected; (3) funds were not made available to major program offices, and there were material first and second quarter intragovernmental differences between HUD and Treasury; (4) HUD's quarterly financial statements were materially misstated; and (5) there was an increased risk of errors due to HUD's extensive reliance on manual journal vouchers.

- Ginnie Mae's financial reporting. Ginnie Mae's internal controls over financial reporting continued to be not effective in fiscal year 2017. These material weaknesses in internal controls were issues related to (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting issues related to cash in transit, revenue recognition, fixed assets, advances, and note disclosures; and (3) accounts payable accrual. The first two issues are repeat findings from prior years, and the last one was new in fiscal year 2017. These conditions occurred because of Ginnie Mae's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected increased.

- FHA's financial reporting. In fiscal year 2017, some of the control deficiencies in financial reporting identified in 2016 continued, and new control deficiencies were identified. Specifically, these new control deficiencies included issues related to the timing in the recognition of the credit subsidy expense and unrecorded accruals. In addition, FHA had material note disclosure errors in note 7 of the financial statements. These note errors included (1) inaccurate disclosure of the loan endorsement amounts for the 2017 and 2016 single-family and HECM loans and (2) incorrect allocation of loan guarantee liability reestimates between the subsidy expense and interest expense components in fiscal year 2016. These conditions occurred because FHA did not have effective monitoring and processes in place to ensure (1) that accounting events were recorded in a timely manner, (2) that accrual methodologies were reviewed on a regular basis for completion and accuracy, and (3) the accuracy of data reported in the financial statements. As a result, $382 million in accounting adjustments had to be made to correct the errors in FHA's accounting records and $23.7 billion in restatements were made to fiscal year 2016 endorsement amounts disclosed in note 7. Additionally, FHA may have missed an opportunity to put $270.7 million of its unobligated funds to better use because invalid obligations were not always deobligated on time.

HUD Assets and Liabilities Were Misstated and Not Adequately Supported

HUD did not properly account for, have internal controls over, or have adequate support for all of its assets and liabilities. Specifically, (1) CPD did not adequately validate its accrued grant liabilities estimates; (2) PIH's accounting for its cash management process was haphazard and did not comply with Federal GAAP or FFMIA; (3) HUD did not recognize prepayments for funds advanced to its IHBG grantees for investments; (4) PIH did not accurately track accounts receivable payments or writeoffs related to the Housing Choice Voucher program; (5) balances related to HUD's loan guarantee programs were not reliable; and (6) HUD did not properly account for its property, plant, and equipment. These problems occurred because of (1) continued weaknesses in HUD's internal controls over financial reporting, (2) a lack of communication between OCFO and the program offices, and (3) insufficient information systems. As a result, several financial statement line items were misstated or could not be audited as of September 30, 2017. Specifically, (1) CPD's accrued grant liabilities estimates could not be audited; (2) PIH's prepayment and related accounts receivable and payable line items on its interim balance sheets were misstated; (3) we could not provide an opinion on PIH's prepayment balance; (4) HUD's assets and expenses related to IHBG investments were understated and overstated by approximately $149 million, respectively, due to the improper accounting of IHBG grant investments; (5) HUD's accounts receivable balance is at risk of misstatement because Housing Choice Voucher program debts were not adequately tracked; (6) the CPD Section 108 and PIH Section 184 loan guarantee liabilities contained unreconciled differences and could not be audited; and (7) HUD's $323.8 million balance for property, plant, and equipment was not supported.

Significant Reconciliations Were Not Completed in a Timely Manner

HUD did not resolve material differences between subsidiary ledgers and the general ledger and did not maintain sufficient evidence to support financial statement line items. Further, OCFO did not complete required cash reconciliations in a timely manner or properly reconcile and monitor HUD's suspense accounts. In fiscal year 2017, HUD made limited progress in establishing policies and procedures and defining roles and responsibilities related to key reconciliations of material financial statement line items. As a result, HUD remains susceptible to increases in the risks of fraud, waste, and mismanagement of funds, which affected HUD's ability to effectively monitor budget execution, and affects the ability to accurately measure the full cost of the Government's programs. Additionally, the risk that a misstatement to the financial statements would not be detected and prevented increased. Further, not maintaining accurate and detailed reports on HUD's suspense activity increases the effort required to resolve differences and clear transactions entered into the suspense accounts and increases the potential risk that financial activity is not accurately reported, cash differences could occur, and overobligations or overexpenditures could be hidden.

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

HUD CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method[7] for committing and disbursing obligations. Since 2013, we have reported that the information system used, the 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 was applied only to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. As a result, budget year grant obligation balances continued to be misstated, and disbursements made using an incorrect United States Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS are necessary for the system to comply with FFMIA and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method prevented the financial effects of FIFO on HUD's consolidated financial statements from being quantified. Further, because of the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the combined statement of budgetary resources and the consolidated balance sheet were materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

HUD's Financial Management System Weaknesses Continued

HUD's financial management system weaknesses remained a material weakness in fiscal year 2017 due to the combined impact of a multitude of financial reporting deficiencies and limitations. While HUD took steps to modernize its financial management system through the transition of key financial management functions to an FSSP in 2016, it encountered significant challenges after implementation that had not been resolved as of September 30, 2017. Many of the material weaknesses discussed in this audit report share the same underlying cause, shortcomings in HUD's financial management systems. HUD's efforts to modernize its financial management systems continued to be hindered by weaknesses in implementing key information technology (IT) management practices.[8] HUD's inability to modernize its legacy

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

[8] U.S. Government Accountability Office (GAO), GAO-16-656, July 2016, Financial Management Systems: HUD Needs to Address Management and Governance Issues That Jeopardize its Modernization Efforts; http://www.gao.gov/assets/680/678727.pdf

financial systems resulted in a continued reliance on legacy financial systems with various limitations. HUD's loans, grants, commitments, obligations, and payments still flow through antiquated systems developed 15 to 30 years ago that require complex interfaces into the FSSP environment. Program offices have compensated for system limitations by using less reliable manual processes to meet financial management needs. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable
In fiscal year 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA into an auditable state. Therefore, we were unable to audit the $3.6 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2017. These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million). Although efforts are underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the nonpooled loan assets and related accounts will be recorded in the financial statements, were not in place. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion. As a result, we deemed our audit scope to be insufficient to express an opinion on Ginnie Mae's $3.6 billion in nonpooled loan assets and related accounts as of September 30, 2017.

The Allowance for Loan Loss Account Balances Were Unreliable
In fiscal year 2017, as reported in previous years, the various underlying accounting issues we reported regarding Ginnie Mae's loan loss account balances continued. In addition, Ginnie Mae self-identified another allowance for loan loss issue this fiscal year. Specifically, this issue was in regard to how the servicing costs and certain foreclosure and maintenance costs were improperly considered in Ginnie Mae's allowance for loan loss estimation. Factors that contributed to these issues included (1) the delayed implementation of key accounting policies and procedures related to nonpooled loan assets and related accounts, including the allowance for loan loss and FHA reimbursable costs, and (2) the lack of financial management systems capable of handling loan-level accounting. Due to a combination of these accounting issues, we determined that the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements, as of September 30, 2017, was unreliable.

HUD's and Ginnie Mae's Financial Management Governance Was Ineffective
Overall, we determined that HUD's financial management governance remained ineffective. Weaknesses in program and component internal controls 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.

HUD's financial management governance remained ineffective during fiscal year 2017. As of September 30, 2017, HUD's financial management leadership structure was in disarray. Entering its second full year without a confirmed Chief Financial Officer (CFO), its acting CFO unexpectedly resigned, and multiple assistant CFO positions remained vacant. Additionally, HUD continued to lack mature financial management governance practices and sufficient policies and procedures to update significant business process changes after its transition to an FSSP for financial management services. Further, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and continued the use of its outdated legacy financial systems. Weaknesses in program and component internal controls that impacted financial reporting were able to develop in part due to a lack of established financial management processes. HUD's unaddressed financial management weaknesses have significantly contributed to the high volume of material weaknesses in internal controls over financial reporting and instances of noncompliance with laws and regulations. Without financial management leadership setting direction and priorities and ensuring oversight, HUD's efforts at solving these deficiencies are unlikely to make meaningful progress.

Ginnie Mae's executive management effort in addressing the financial management governance problems cited in our fiscal years 2014, 2015, and 2016 audit reports continued to be a work in progress at the end of fiscal year 2017. While some progress had been made this fiscal year, more work is needed to fully address the issues cited in our report. Specifically, these problems included issues in (1) keeping Ginnie Mae OCFO's operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the models used to generate accounting estimates for financial reporting. Some of these conditions continued because implementation of the corrective action plans took longer than anticipated and, therefore, contributed to Ginnie Mae's inability to produce auditable financial statements for the fourth consecutive fiscal year.

Weaknesses Identified in FHA's Modeling Processes

In 2017, OIG identified a number of weaknesses in FHA modeling processes. Specifically, these weaknesses were related to FHA's ineffective model documentation, model governance, and modeling practices. All of these weaknesses were the direct result of FHA's failure to ensure well-controlled modeling processes were implemented. As a result, FHA failed to prevent or detect $631.8 million in total errors to its model output results, which supports FHA's loan guarantee liability (LLG) line item in its financial statements. Further, given unresolved concerns regarding the predictive capability of the single-family model, along with not following established policies and procedures and best practices for model coding, all of these concerns could impact the reliability of FHA's LLG estimates.

Significant Deficiencies

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. We determined that the following deficiencies met the definition of a significant deficiency.

Weaknesses in HUD's Administrative Control of Funds System and Internal Control Documentation

HUD continued to not have a fully implemented and complete administrative control of funds system and internal control documentation that provided oversight of both obligations and disbursements. We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. Our current review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds policies; (2) funds control matrices did not follow the policies and procedures included in HUD's Funds Control Handbook; (3) CAM1[9] was not included in funds control matrices and funds control documentation; (4) the Office of the Chief Procurement Officer (OCPO) did not maintain adequate records for interagency agreements in its procurement system of record, the U.S. Treasury, Administrative Resource Center's PRISM; and (5) OCFO did not maintain adequate records and internal control documentation for intragovernmental payments and collections that are recorded in the financial system of record, Oracle Federal Financials. These conditions existed because of (1) questionable management decisions made by HUD OCFO and OCPO, (2) a lack of compliance reviews conducted in fiscal year 2017, and (3) failures by HUD's allotment holders to update their funds control matrices and notify OCFO of changes in their obligation process before implementation. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act and internal control documentation requirements established by U.S. Government Accountability Office (GAO).

HUD Continued To Report Significant Amounts of Invalid Obligations

Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, some program offices did not complete their obligation reviews in a timely manner, and we discovered $263.5 million in invalid obligations not previously identified by HUD. We discovered another $323.6 million in obligations that were inactive,[10] potentially indicating additional invalid obligations. We also identified $61.8 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year that remained on the books as of September 30, 2017. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, as of September 30, 2017, HUD had not implemented prior-year recommendations to deobligate $121.7 million in funds. As a result, HUD's unliquidated obligation balances on the statement of budgetary resources were overstated by at least $360.1 million and potentially overstated up to $770.6 million.

HUD's Computing Environment Controls Had Weaknesses

HUD had various weaknesses with system controls and security management and did not ensure that general and application controls over its financial systems and computing environment fully complied with Federal requirements. These conditions were the result of a lack of planning,

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[9] The Oracle financial system includes an account flex field for the line of accounting. The program class and program code are combined into one field called "CAM1" in Oracle.

[10] We defined an obligation as inactive if a disbursement has not been made within a reasonable amount of time. This time varies based on program area and applicable criteria.

oversight, resources, and monitoring. Without effective controls in place, HUD cannot ensure that the systems and network will perform as intended to support its mission and generate accurate financial statements.

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. We audited the general and application controls over the intranet general support system and selected information systems that support the preparation of HUD's financial statements.

Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for GFAS

Ginnie Mae was not in full compliance with Federal information system controls requirements for its Ginnie Mae Financial Accounting System (GFAS). Our review of general and application controls over GFAS identified deficiencies with (1) the budget override function, (2) outdated system software, (3) user accounts that were not disabled in a timely manner, and (4) a lack of policies and procedures for its business processing application controls. These deficiencies occurred because Ginnie Mae (1) did not know that the override functionality was allowed by system default, (2) had limited funding and resources and prioritized system enhancements, (3) did not have a sufficient user account review process, and (4) did not develop specific policies and procedures for its business processes. These deficiencies could (1) provide opportunities for users to misuse or overextend their authority, (2) expose the system to known vulnerabilities, (3) subject the system to unauthorized access for malicious purposes, and (4) threaten the internal controls of the organization.

FHA's Controls Related to Partial Claims Had Improved, but Weaknesses Remained

In fiscal year 2017, FHA began billing noncompliant mortgagees for partial claims when the mortgagees had not provided FHA with the related promissory note (second mortgage note) when the note was not provided within 60 days of executing the partial claim.[11] FHA began billing mortgagees between 2 and 59 days after the 60-day expiration period. While this was a marked improvement from waiting until 6 months after the expiration period, it was not always immediately after as we had previously recommended. A delay in FHA management's reaching an agreement to change the billing policy and procedures was a contributing factor in FHA's delay in fully implementing the controls in a timely manner. Unnecessary delays in implementing the collection process from noncompliant mortgagees with unsupported partial claims is not a good cash management practice and does not help improve the health of the Mutual Mortgage Insurance fund.[12] FHA should continue to implement its policy and ensure that the implementation is fully carried out.

[11] The mortgagee must deliver to HUD's loan servicing contractor, no later than 60 days from the execution date of the partial claim, the original partial claim promissory note and no later than 6 months from the execution date, the recorded subordinate mortgage.

[12] Collecting the amounts for unsupported partial claims in a timely manner improves the status of the Mutual Mortgage Insurance fund by restoring funds paid out as loss mitigation claims.

Weaknesses Were Identified in Selected FHA Information Technology Systems
The Asset Disposition and Management System application and the source applications used in the credit reform estimation and reestimation process contained security vulnerabilities. These conditions occurred because of a lack of contract oversight and insufficient coordination between the Office of the Chief Information Officer and FHA. As a result, the confidentiality, integrity, and availability of critical information may be negatively impacted. In addition, the information used to provide input to the FHA financial statements could be adversely affected. We also determined that remediation of weaknesses previously reported with the Single Family Premium Collection Subsystem – Periodic, Single Family Acquired Asset Management System, Single Family Insurance System, and Single Family Insurance System – Claims Subsystem are in progress and expected to be fully remediated within the agreed-upon timeframes.

Report on Compliance With Laws and Regulations, Contracts, and Grant Agreements

We performed tests of HUD's compliance with certain provisions of laws and regulations. The results of our tests disclosed three 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. 17-03, Audit Requirements for Federal Financial Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act
In fiscal year 2017, we noted a number of instances of FFMIA noncompliance within HUD's financial management system. We also noted inaccuracies in the Federal Managers Financial Integrity Act (FMFIA) and FFMIA assurance statement process, which allowed certification of a financial management system as FFMIA compliant when it was not. This condition was caused by weaknesses in the reviews of the FMFIA and FFMIA assurance certifications. HUD's continued noncompliance with FFMIA was due to a high volume of material weaknesses, ineffectively designed and operating key internal controls over financial reporting, and longstanding issues related to component and program office system weaknesses that remained unresolved.

HUD Did Not Comply With the Debt Collection Improvement Act of 1996
The Debt Collection Improvement Act (DCIA), as amended, required that HUD refer delinquent debts to the Treasury within 120 days[13] and take all appropriate actions before discharging debts.[14] However, HUD and Ginnie Mae did not always follow applicable requirements for establishing and collecting debts.

[13] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. (6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (Note: Effective May 9, 2014 agencies were required to transfer debts for administrative offset after 120 days in accordance with the DATA Act [Digital Accountability and Transparency Act of 2014]).
[14] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996.

Specifically, for the Housing Choice Voucher program, HUD did not properly report receivables in HUD's financial statements and did not perform the procedures necessary to establish legally enforceable repayments, and HUD did not adequately track debt repayments and writeoffs. Additionally, a separate program audit[15] identified similar weaknesses in the area of debt forgiveness and termination. Specifically, HUD's debt collection and claims officer terminated debt collections and forgave debts without ensuring that required debt collection actions were taken and that U.S. Department of Justice approval was obtained when required. These conditions occurred because OCFO and PIH did not follow responsibilities and procedures outlined in the HUD handbook on debt collection. Therefore, HUD did not comply with DCIA as amended and, as a result, was unable to recoup money due back to HUD that could be used to serve the public.

In fiscal year 2017, Ginnie Mae's noncompliance with the DCIA of 1996 continued. Specifically, as reported in fiscal years 2016 and 2015, Ginnie Mae had not remediated its practice of not analyzing the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae, using all debt collection tools allowed by law, before discharging them. This condition occurred because Ginnie Mae's management continued to take the position that the DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements.[16] As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its mortgage-backed securities program.

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

HUD OIG's Improper Payments Elimination and Recovery Act (IPERA) audit[17] found that HUD did not comply with IPERA in fiscal year 2016 because it did not conduct its annual risk assessment in accordance with OMB Circular A-123, appendix C, guidance or meet its annual improper payment reduction target. Specifically, HUD did not assess all low-risk programs on a 3-year cycle and rate risk factors in accordance with its own risk rating criteria due to a lack of proper review procedures, thus making the review incomplete and noncompliant with section 3(a)(3)(B) of IPERA. HUD also missed its reduction rate goal for fiscal year 2016 for its high-priority program, Rental Housing Assistance Programs (RHAP), causing noncompliance with section 3(a)(3)(E) of IPERA. Additionally, information published in the agency financial report did not meet the reporting requirements of OMB Circular A-136 and deviated from the reporting requirements of OMB Circulars A-123 and A-136, significant improper payments in HUD's

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31 U.S.C. 3711- (g)(9) Before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency shall take all appropriate steps to collect such debt, including (as applicable)— administrative offset, tax refund offset, Federal salary offset, referral to private collection contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debtors, and litigation or foreclosure.

[15] Audit Report 2017-LA-0005, HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections

[16] HUD is subject to the DCIA, and Ginnie Mae is an entity under HUD; therefore, it should be required to comply with the DCIA.

[17] Audit Report 2017-FO-0006, Compliance With the Improper Payments Elimination and Recovery Act, issued May 11, 2017

RHAP continued, and HUD's improper payment estimate and methodology for RHAP continued to have deficiencies during fiscal year 2016. This is the fourth consecutive year that HUD did not comply with IPERA.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2017 and 2016 (restated) financial statements. Our report on FHA's financial statements[18] includes an unqualified opinion on FHA's financial statements, along with discussion of two material weaknesses and two significant deficiencies in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2017 and 2016 (restated) financial statements. Our report on Ginnie Mae's financial statements[19] includes a disclaimer of opinion on these financial statements, along with discussion of four material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

Objectives, Scope, and Methodology

As part of our audit, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, we do not provide an opinion on internal controls. We conducted our audit in accordance with Government Auditing Standards and the requirements of OMB Bulletin 17-03. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2017 agency financial report, we performed limited testing procedures as required by the American Institute of Certified Public Accountants' Clarified Statements on Auditing Standards, AU-C 730, Required Supplementary Information.

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[18] Audit Report 2018-FO-0003, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 15, 2017, was incorporated into this report.
[19] Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 14, 2017, was incorporated into this report.

Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

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

Agency Comments and Our Evaluation

We reviewed management's response to the draft independent auditor's report, which can be found in its entirety in appendix A. HUD is generally in agreement with the internal control weaknesses cited in our report.

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.

Kimberly R. Randall

Kimberly R. Randall
Acting Assistant Inspector General for Audit
Washington, DC

November 15, 2017

Appendixes

Appendix A

Auditee Comments to Independent Auditor's Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

November 14, 2017

MEMORANDUM FOR: Thomas R. McEnanly, Director of Financial Audits Division, HUD, GAH

FROM: Thomas W. Harker, Acting Deputy Chief Financial Officer for Accounting and Financial Management, HUD, F

SUBJECT: Response to Fiscal Year 2017 Financial Statement Audit – Transmittal of Draft Fiscal Year 2017 Independent Auditor's Report on HUD's Fiscal Year 2017 and 2016 Consolidated Financial Statements

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) is vital to ensuring that HUD programs and employees work to successfully accomplish these goals.

HUD agrees that it cannot continue to operate in the absence of a clean audit opinion, and we are committed to making the business process changes necessary to resolve the longstanding material weaknesses in internal control. We look forward to working with the OIG to identify the weaknesses that have the largest impact on the disclaimer condition, and will focus our remediation efforts to achieve the greatest results.

We look forward to continuing to build on our relationship with the OIG as we work to address these and any future challenges facing HUD and the communities we serve. Specifically, we are focused on four areas of operational improvement: accountability, increased transparency, interagency collaboration, and a greater commitment to measuring outcomes.

These efforts will go a long way in making HUD more efficient and effective, and help to ensure the progress made this year continues to reap increasingly beneficial results. The entire HUD team is committed to tackling these challenges head on. Working collaboratively with OIG, HUD will continue to identify and implement solutions that will help to ensure weaknesses impacting the audit opinion are adequately addressed.

We appreciate that the OIG is committed to HUD's missions, and is working to help provide us with actionable recommendations that will improve operations.

OIG Evaluation of Agency Comments

Comment 1 OIG acknowledges HUD's agreement with the weaknesses in internal controls reported in our independent auditor's report. We will continue to work with HUD in resolving these matters in fiscal year 2018, and we thank HUD for the cooperation and assistance extended to us during the audit.

Appendix B

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

Audit report number	Funds to be put to better use 1/
2017-FO-0003	$270,747,281
2017-FO-0004	978,360,226
Totals	**1,249,107,507**

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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 C

HUD's Fiscal Years 2017 and 2016 (Restated) 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 generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget, 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, 2017, and 2016, 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, 2017, and 2016. 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, 2017, and 2016.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2017 and 2016, the status of these resources at September 30, 2017, and 2016, and the outlay of budgetary resources for the years ended September 30, 2017, and 2016.

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 Sheets
As of September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016 (Restated)
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 88,824	$ 73,198
Short-Term Investments (Note 5)	17,276	15,954
Long-Term Investments Held to Maturity (Note 5)	30,841	36,398
Accounts Receivable, Net (Note 6)	-	1
Other Intragovernmental Assets (Note 11)	20	43
Total Intragovernmental Assets	136,961	125,594
Cash and Other Monetary Assets (Note 4)	81	$ 113
Investments (Note 5)	44	31
Accounts Receivable, Net (Note 6)	726	666
Direct Loan and Loan Guarantees, Net (Note 7)	20,249	19,476
Other Non-Credit Reform Loans (Note 8)	2,940	2,825
General Property, Plant, and Equipment, Net (Note 9)	413	381
PIH Prepayments (Note 10)	337	380
Total Assets	$ 161,751	$ 149,466
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 12)	$ 26	$ 24
Debt (Note 13)	29,269	31,002
Other Intragovernmental Liabilities (Note 15)	2,061	3,024
Total Intragovernmental Liabilities	31,356	34,050
Accounts Payable (Note 12)	1,000	$ 986
Accrued Grant Liabilities (Note 12)	2,503	2,663
Loan Guarantee Liability (Note 7)	20,334	(2,057)
Debt Held by the Public (Note 13)	3	8
Federal Employee and Veteran Benefits (Note 14)	65	64
Loss Reserves (Note 16)	268	2
Other Liabilities (Note 15)	1,431	1,500
Total Liabilities	$ 56,960	$ 37,216
Commitments and Contingencies (Note 16)	192	$ 55
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Consolidated Totals) (Note 17)	$ (467)	$ (343)
Unexpended Appropriations - All Other Funds (Consolidated Totals)	53,630	47,258
Cumulative Results of Operations - Funds from Dedicated Collections (Consolidated Totals) (Note 17)	23,850	22,730
Cumulative Results of Operations - All Other Funds (Consolidated Totals)	27,778	42,605
Total Net Position - Funds from Dedicated Collections (Consolidated Totals)	**23,383**	**22,387**
Total Net Position - All Other Funds (Consolidated Totals)	**81,408**	**89,863**
Total Net Position	**104,791**	**112,250**
Total Liabilities and Net Position	**$ 161,751**	**$ 149,466**

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 Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016 (Restated)
COSTS		
Federal Housing Administration (FHA)		
Gross Costs (Note 18)	$ 20,856	$ (17,758)
Less: Earned Revenue	(1,753)	(1,218)
Net Program Costs	$ 19,103	$ (18,976)
Government National Mortgage Association (GNMA)		
Gross Costs (Note 18)	$ 581	$ 283
Less: Earned Revenue	(1,691)	(1,609)
Net Program Costs	$ (1,110)	$ (1,326)
Section 8 Rental Assistance		
Gross Costs (Note 18)	$ 32,600	$ 30,743
Less: Earned Revenue	-	-
Net Program Costs	$ 32,600	$ 30,743
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs (Note 18)	$ 2,389	$ 2,995
Less: Earned Revenue	-	-
Net Program Costs	$ 2,389	$ 2,995
Homeless Assistance Grants		
Gross Costs (Note 18)	$ 2,033	$ 1,957
Less: Earned Revenue	(1)	5
Net Program Costs	$ 2,032	$ 1,962
Housing for the Elderly and Disabled		
Gross Costs (Note 18)	$ 935	$ 974
Less: Earned Revenue	(92)	(109)
Net Program Costs	$ 843	$ 865
Community Development Block Grants (CDBG)		
Gross Costs (Note 18)	$ 5,764	$ 6,286
Less: Earned Revenue	-	-
Net Program Costs	$ 5,764	$ 6,286
HOME		
Gross Costs (Note 18)	$ 1,074	$ 1,167
Less: Earned Revenue	-	-
Net Program Costs	$ 1,074	$ 1,167
All Other		
Gross Costs (Note 18)	$ 5,765	$ 6,261
Less: Earned Revenue	(34)	(37)
Net Program Costs	$ 5,731	$ 6,224
Costs Not Assigned to Programs	185	262
Consolidated		
Gross Costs (Note 18)	$ 72,182	$ 33,170
Less: Earned Revenues	(3,571)	(2,968)
Net Cost of Operations	$ 68,611	$ 30,202

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 Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017			2016 (Restated)		
	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Consolidated Total	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Consolidated Total
CUMULATIVE RESULTS FROM OPERATIONS:						
Beginning Balances	$ 22,730	$ 42,605	$ 65,335	$ 21,417	$ 20,646	$ 42,063
Adjustments:						
Corrections of Errors	-	-	-	(28)	835	807
Beginning Balance, As Adjusted	22,730	42,605	65,335	21,389	21,481	42,870
BUDGETARY FINANCING SOURCES:						
Other Adjustments	(3)	-	(3)	(1)	-	(1)
Appropriations Used	115	55,253	55,368	89	54,372	54,461
Nonexchange Revenue	3	250	253	4	201	205
Transfers In/Out Without Reimbursement	-	(2)	(2)	-	-	-
Other	-	-	-	-	-	-
OTHER FINANCING SOURCES (NONEXCHANGE):						
Transfers In/Out Without Reimbursement	-	-	-	-	-	-
Imputed Financing	2	53	55	1	158	159
Other	-	(767)	(767)	-	(2,157)	(2,157)
Total Financing Sources	117	54,787	54,904	93	52,574	52,667
Net Cost of Operations	1,003	(69,614)	(68,611)	1,248	(31,450)	(30,202)
Net Change	1,120	(14,827)	(13,707)	1,341	21,124	22,465
CUMULATIVE RESULTS OF OPERATIONS	**23,850**	**27,778**	**51,628**	**22,730**	**42,605**	**65,335**
UNEXPENDED APPROPRIATIONS:						
Beginning Balance	(343)	47,258	46,915	(321)	51,436	51,115
Adjustments:						
Corrections of Errors	-	-	-	14	(15)	(1)
Beginning Balance, As Adjusted	(343)	47,258	46,915	(307)	51,421	51,114
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	62,049	62,049	-	51,088	51,088
Appropriations Transferred In/Out	-	-	-	80	(80)	-
Other Adjustments	(9)	(424)	(433)	(27)	(799)	(826)
Appropriations Used	(115)	(55,253)	(55,368)	(89)	(54,372)	(54,461)
Total Budgetary Financing Sources	(124)	6,372	6,248	(36)	(4,163)	(4,199)
TOTAL UNEXPENDED APPROPRIATIONS	**(467)**	**53,630**	**53,163**	**(343)**	**47,258**	**46,915**
NET POSITION	**$ 23,383**	**$ 81,408**	**$ 104,791**	**$ 22,387**	**$ 89,863**	**$ 112,250**

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 Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017		2016 (Restated)	
	Budgetary	Non Budgetary Credit Reform Financing Account	Budgetary	Non Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance Brought Forward, Oct 1	$ 68,756	$ 17,078	$ 44,388	$ 35,488
Adjustment to Unobligated Balance Brought Forward, Oct 1	(7)	234	-	24
Unobligated Balance Brought Forward, Oct 1, As Adjusted	68,749	17,312	44,388	35,512
Recoveries of Unpaid Prior Year Obligations	633	87	1,039	463
Other Changes in Unobligated Balance	(3,131)	1,996	(1,089)	-
Unobligated Balance From Prior Year Budget Authority, Net	66,251	19,395	44,338	35,975
Appropriations (Discretionary and Mandatory)	62,218	-	51,256	-
Borrowing Authority (Discretionary and Mandatory)	-	8,377	-	13,078
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	17,510	37,192	28,704	22,658
Total Budgetary Resources	**$ 145,979**	**$ 64,964**	**$ 124,298**	**$ 71,711**
Status of Budgetary Resources:				
New obligations and upward adjustments (total)				
Direct	$ 78,330	$ 35,052	$ 55,328	$ 51,020
Reimbursable	318	4,032	214	3,613
Subtotal	$ 78,648	$ 39,084	$ 55,542	$ 54,633
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	7,996	6,751	12,247	5,677
Unapportioned, Unexpired Accounts	58,485	19,129	55,660	11,401
Unexpired Unobligated Balance, End of Year	**66,481**	**25,880**	**67,907**	**17,078**
Expired Unobligated Balance, End of Year	850	-	849	-
Unobligated Balance, End of Year (Total)	67,331	25,880	68,756	17,078
Total Budgetary Resources	**$ 145,979**	**$ 64,964**	**$ 124,298**	**$ 71,711**
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, Oct 1	$ 36,308	$ 2,856	$ 39,326	$ 2,758
Adjustment to Unpaid Obligations, Start of Year	7	-	(1)	(24)
New Obligations and Upward Adjustments	78,648	39,084	55,542	54,633
Outlays (Gross)	(74,465)	(38,133)	(57,520)	(54,048)
Recoveries of Prior Year Unpaid Obligations	(633)	(87)	(1,039)	(463)
Unpaid Obligations, End of Year	39,865	3,720	36,308	2,856
Uncollected Payments:				
Uncollected Pymts, Fed Sources, Brought Forward, Oct 1	(41)	(51)	(18)	(56)
Change in Uncollected Pymts, Fed Sources	(12)	7	(23)	5
Uncollected Pymts, Fed Sources, End of Year	(53)	(44)	(41)	(51)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	**$ 36,274**	**$ 2,805**	**$ 39,307**	**$ 2,678**
Obligated Balance, End of Year	**$ 39,812**	**$ 3,676**	**$ 36,267**	**$ 2,805**
Budget Authority and Outlays, Net				
Budget Authority, Gross (Discretionary and Mandatory)	$ 79,728	$ 45,569	$ 79,960	$ 35,736
Actual Offsetting Collections (Discretionary and Mandatory)	(17,623)	(47,006)	(28,826)	(31,888)
Change in Uncollected Pymts, Fed Sources (Discretionary and Mandatory)	(12)	7	(23)	5
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	12	-	28	-
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 62,105**	**$ (1,430)**	**$ 51,139**	**$ 3,853**
Outlays, Gross (Discretionary and Mandatory)	$ 74,465	$ 38,133	$ 57,520	$ 54,048
Actual Offsetting Collections (Discretionary and Mandatory)	(17,623)	(47,006)	(28,826)	(31,888)
Outlays, Net (Total) (Discretionary and Mandatory)	56,842	(8,873)	28,694	22,160
Distributed Offsetting Receipts	(1,368)	-	(2,302)	-
Agency Outlays, Net (Discretionary and Mandatory)	**$ 55,474**	**$ (8,873)**	**$ 26,392**	**$ 22,160**

The accompanying notes are an integral part of these statements

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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 Authorities (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 fund the formula Emergency Solutions Grant program and the competitive Continuum of Care program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

The Supportive Housing for the Elderly (Section 202) and Persons with Disabilities (Section 811) grant programs provide capital to nonprofit organizations sponsoring rental housing for the elderly and disabled. Prior to these programs being operated as grants, they were administered as 40-year loans.

The Community Development Block Grant programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance, and improved community facilities and services.

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.

HUD also has smaller programs which provide grants, 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 maintenance costs of PHAs and TDHEs housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

B. Basis of Accounting and Presentation

The accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of HUD in accordance with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards (SFFAS).

These financial statements include all the accounts and transactions of HUD to include FHA, Ginnie Mae, and its grant, subsidy, and loan programs. All inter-fund accounts receivable, accounts payable, transfers in, and transfers out within these programs have been eliminated.

The financial statements are presented on the accrual and budgetary basis 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. The budgetary basis of accounting recognizes the obligation of funds according to legal requirements, which in many cases occurs prior to an accrual-based transaction. The use of budgetary accounting is essential for compliance with legal requirements and controls over 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. The exception is PIH's Housing Choice Voucher and Moving to Work programs, where funds are paid on the first day of the month to basically cover rental expenses of that month.

C. Use of Estimates

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

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

To estimate the Allowance for Subsidy associated with loans receivable, related foreclosed property, and the Liability for Loan Guarantees, the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA) 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 programs, 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 funding needs for PHAs and Indian Housing Authorities under the PIH HCV Program. Under the Department's cash management program, net position is monitored by the Department and estimated by HUD on a recurring basis.

HUD implemented a grant accrual policy and continues to refine its methodologies and the underlying assumptions to develop the estimates. Grant accruals are calculated by the various program areas on a quarterly basis and recorded in the trial balance to be included in the Financial Statements. The accruals are reversed in a later accounting period.

D. Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that HUD has authority to use for its operations. Non-entity assets are those held by HUD but unavailable for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. HUD combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes.

E. Fund Balance with U.S. Department of the Treasury (Treasury)

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD, and HUD's accounting records are reconciled with Treasury on a monthly basis. HUD has several types of funds which include General, Revolving, Trust, and other fund types such as deposit and clearing accounts.

F. Investments

HUD limits its investments, principally comprised of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) Fund and 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.

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 most cases, they are held to maturity.

G. 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. FHA's loans receivable includes Mortgage Notes Assigned (MNAs), also described as Secretary-held notes, Purchase Money Mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank Risk Share program. 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. The majority of MNAs are Home Equity Conversion Mortgage (HECM) notes. HECM loans, while not in default, are assigned to HUD when they reach 98 percent of their maximum claim amount. 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, property recovery rates, and net 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 of 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 cost of sales.

H. Credit Reform Accounting

The primary purpose of the 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, titled Federal Credit Programs, defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor).

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 Statement of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts, whereas 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 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 fiscal year end, the fund balance in the general fund receipt account is transferred to the U.S. Treasury General Fund. The FHA general fund receipt accounts for the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

The capital reserve account was created to retain the MMI /CMHI negative subsidy and subsequent downward re-estimates. Specifically, the National Affordable Housing Act requires that FHA maintain a 2 percent Capital Ratio in the MMI Fund. 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 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 only available 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.

I. Property, Plant, and Equipment, Net

Property, Plant, and Equipment, Net (PP&E) is composed of capital assets used in providing goods or services. PP&E is stated at cost less accumulated depreciation. Acquisitions of PP&E include assets purchased or assets acquired through other means, such as through transfer in from another Federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a federal entity and a non-federal entity, and forfeiture.

J. Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by HUD without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted.

K. Borrowings

As further discussed in other notes, 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, are reported as debt in HUD's consolidated financial statements. 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.

L. 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). FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

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

M. Federal Employees Compensation Act Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from HUD for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by HUD. The second component is the estimated liability for future worker's compensation as a result of past events. HUD reports both components in "Other Liabilities" on the Consolidated Balance Sheet.

N. Accrued Unfunded Leave

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.

O. 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 expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under their 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.

Imputed Financing Sources

In certain instances, operating costs of HUD are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management, by law, pays certain costs of retirement programs. When costs that are identifiable to HUD and directly attributable to HUD operations are paid for by other agencies, HUD recognizes these amounts as operating expenses. In addition, HUD recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to reflect the funding of HUD operations by other Federal agencies.

P. Appropriations and Monies Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of General Insurance and Socially Responsible Investment 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.

Q. Full Cost Reporting

SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, requires 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.

R. Retirement Plans

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 $18,000 per year 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.

S. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government.

T. Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between HUD and other entities within the federal government) or public (exchange transactions between HUD and nonfederal entities).

Net program costs are gross costs less revenue earned from activities. HUD determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

V. Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the federal government by a non-federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the federal government's general revenues.

W. Allocation Transfers

HUD is a party to allocation transfers with other Federal Agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department.

A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Parent federal agencies report both the proprietary and budgetary activity, but the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. HUD is the child for one allocation transfer, the Appalachian Regional Commission.

X. Reclassifications

FY 2017 presentation changes have been made to facilitate a greater understanding of the statements and notes. Certain prior year amounts have been reclassified to conform to the current year presentation.

For further details regarding FHA and Ginnie Mae, please refer to their FY 2017 Annual Report.

Note 2: Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the HUD consolidated financial statements and are offset by various liabilities to accurately reflect the Department's net position.

HUD's non-entity assets as of September 30, 2017 and 2016, were as follows (dollars in millions):

Description	**2017**	**2016 (Restated)**
Intragovernmental		
Fund Balance with Treasury	$ 32	$ 42
Total Intragovernmental	$ 32	$ 42
Public		
Cash and Other Monetary Assets	$ 27	$ 29
Accounts Receivable, Net	275	118
Loan Receivables and Related Foreclosed Property, Net	75	104
Other Assets	-	-
Total Public	$ 377	$ 251
Total Non-Entity Assets	$ 409	$ 293
Total Entity Assets	161,342	149,173
Total Assets	**$ 161,751**	**$ 149,466**

Note 3: Fund Balance with Treasury

The U.S. Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. HUD's fund balances by fund type as of September 30, 2017 and 2016, were as follows (dollars in millions):

Description		2017		2016
Fund Balances				
General Funds	$	57,787	$	51,293
Revolving Funds		30,593		21,687
Trust Funds		424		200
Other		20		18
Total	**$**	**88,824**	**$**	**73,198**
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	14,637	$	17,813
Unavailable		31,130		16,223
Obligated Balance not yet Disbursed		43,031		39,141
Non-Budgetary FBWT		26		21
Total	**$**	**88,824**	**$**	**73,198**

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 budgetary resources.

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. Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported in the Combined Statement of Budgetary Resources. The budgetary balances are also supported by amounts other than Fund Balance with Treasury, such as investments, borrowings authority, and budgetary receivables. Additionally, the unobligated balances includes collections related to Ginnie Mae which are not available to HUD unless approval by Congress.

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. Consistent with Treasury's guidance, the Department temporarily adjusts its records to agree with Treasury's balances at the end of the accounting period. The adjustments are reversed at the beginning of the following accounting period.

As the result of one of our new internal controls, HUD initiated a project which quickly identified weaknesses in the validation of the general ledger and sub-ledger balances. Although several historical items have been resolved, efforts were still underway on September 30, 2017, to research, analyze, and resolve the remaining historical items. HUD has assessed the available information for the remaining items and determined there are no supportable financial statement impacts to record.

Note 4: Cash and Other Monetary Assets

Cash and other monetary assets of FHA consist of (1) escrow monies collected that are deposited in minority-owned banks, (2) deposits in transit, and (3) advances and prepayments. As of September 30, 2017, escrow monies and deposits in transit were $27 million and $14 million, respectively. As of September 30, 2016, escrow monies and deposits in transit were $29 million and $24 million, respectively.

Cash and other monetary assets of Ginnie Mae consist of cash that is received by its Master Subservicers, but has not yet been transmitted to Ginnie Mae. As of September 30, 2017 and 2016, deposits in transit were $40 million and $60 million, respectively.

Note 5: Investments

The U.S. Government short-term securities are non-marketable intra-governmental securities. These are U.S. Treasury securities issued with a maturity date of three months or less, consisting primarily of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par amount with a maturity date on the next business day. These overnight certificates are measured at amortized cost which approximates fair value. Interest income on such securities is presented on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government within Other interest income.

The amortized cost and estimated market value of investments in debt securities as of September 30, 2017 and 2016, were as follows (dollars in millions):

Short-Term	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
2017	$ 17,276	$ -	$ -	$ 17,276	$ 17,276
2016	$ 15,954	$ -	$ -	$ 15,954	$ 15,954

The U.S. Government long-term securities are non-marketable intra-governmental securities. The amortized cost and estimated market value of investments in debt securities as September 30, 2017 and 2016, were as follows (dollars in millions):

Long-Term	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
2017	$ 30,744	$ 51	$ 46	$ 30,841	$ 30,747
2016 (Restated)	$ 36,311	$ 54	$ 33	$ 36,398	$ 36,385

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures and securities investments held outside of Treasury. The securities received as part of a legal settlement were valued at $13 million as of September 30, 2017, and are considered to be short-term investments.

The following table presents financial data on FHA's investments in Risk Sharing Debentures and securities held outside Treasury as of September 30, 2017 and 2016 (dollars in millions):

	Beginning Balance	Net Acquisition	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2017						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	31	13	-	-	-	44
Total	**$ 31**	**$ 13**	**$ -**	**$ -**	**$ -**	**$ 44**
2016						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	31	-	-	-	-	31
Total	**$ 31**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 31**

Note 6: Accounts Receivable, Net

The Department's accounts receivable represents FHA Practical Claims and Settlement Receivables, Ginnie Mae Fees and Interest Receivable, and Other Receivables.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships 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.

Other Receivables

Other Receivables 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. Sustained audit costs include sustained audit findings, refunds of overpayment, settlements receivable and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected on the Balance Sheet as of September 30, 2017 and 2016 (dollars in millions):

	2017			2016 (Restated)		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -	$ 1	$ -	$ 1
Public						
FHA Practical Claims and Settlement Receivables	529	(309)	220	531	(288)	243
Ginnie Mae Fees and Interest Receivables	227	(69)	158	294	(134)	160
Other Receivables	349	(1)	348	266	(3)	263
Total	**$ 1,105**	**$ (379)**	**$ 726**	**$ 1,092**	**$ (425)**	**$ 667**

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.

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 healthcare by reducing the cost of capital.

The FHA also 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 subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans and guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans and loan guarantees reported in the current year result from disbursement of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Direct Loan Programs

In FY 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans, and share in any losses.

Prior to FY 2015, FHA's Direct Loans were a result of Purchase Money Mortgages (PMMs). The Direct loan receivables were primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single Family Housing. Due to the small size, there is no subsidy associated with these loans.

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

FHA's technical re-estimate amounts for loan guarantee liabilities reflected in loan guarantee liability tables may have a reconciling difference due to the inclusion of the interest expense component in its Schedule of Reconciling Loan Guarantee Liability balances. 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 September 30, 2017 and 2016:

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 Loan Guarantee 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):

	2017				
Direct Loan Programs	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Foreclosed Property**	**Value of Assets Related to Direct Loans**
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	8	13	(4)	-	17
Housing for the Elderly and Disabled	954	12	(7)	3	962
All Other					
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	368	53	(42)	-	379
Total	**$ 1,335**	**$ 78**	**$ (58)**	**$ 5**	**$ 1,360**

	2016				
Direct Loan Programs	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Foreclosed Property**	**Value of Assets Related to Direct Loans**
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	8	13	(4)	-	17
Housing for the Elderly and Disabled	1,167	14	(10)	-	1,171
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	405	57	(45)	-	417
Total	**$ 1,585**	**$ 84**	**$ (64)**	**$ 1**	**$ 1,606**

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

Direct Loan Programs	Loans Receivable, Gross (2017)	Interest Receivable (2017)	Allowance for Subsidy Cost (Present Value) (2017)	Foreclosed Property (2017)	Value of Assets Related to Direct Loans (2017)
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	1,193	3	36	-	1,232
All Other					
a) Green Retrofit Program	53	-	(53)	-	-
b) Emergency Homeowners' Relief /fund	18	-	(19)	-	(1)
c) EHLP Assigned Loans Receipt Account	75	-	-	-	75
Total	**$ 1,339**	**$ 3**	**$ (36)**	**$ -**	**$ 1,306**

Direct Loan Programs	Loans Receivable, Gross (2016)	Interest Receivable (2016)	Allowance for Subsidy Cost (Present Value) (2016)	Foreclosed Property (2016)	Value of Assets Related to Direct Loans (2016)
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ (3)	$ -	$ (3)
b) GI/SRI Direct Loan Program	554	1	27	-	582
All Other					
a) Green Retrofit Program	57	1	(53)	-	5
b) Emergency Homeowners' Relief /fund	34	-	(35)	-	(1)
c) EHLP Assigned Loans Receipt Account	104	-	-	-	104
Total	**$ 749**	**$ 2**	**$ (64)**	**$ -**	**$ 687**

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

Direct Loan Program	Current Year	Prior Year
FHA Risk Sharing Program	$ 639	$ 452
All Other		
a) Green Retrofit Program	-	-
b) Emergency Homeowners' Relief /fund	-	-
Total	**$ 639**	**$ 452**

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

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

	2017				
Direct Loan Programs	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$ (76)	$ 1	$ (18)	$ 21	$ (72)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-	-
Total	**$ (76)**	**$ 1**	**$ (18)**	**$ 21**	**$ (72)**

	2016				
Direct Loan Programs	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$ (68)	$ 4	$ (9)	$ 21	$ (52)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-	-
Total	**$ (68)**	**$ 4**	**$ (9)**	**$ 21**	**$ (52)**

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

	2017			
Direct Loan Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ 61	$ 61
All Other				
a) Green Retrofit Program	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-
Total	**$ -**	**$ -**	**$ 61**	**$ 61**

	2016			
Direct Loan Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ 65	$ 65
All Other				
a) Green Retrofit Program	-	-	(13)	(13)
b) Emergency Homeowners' Relief /fund	-	-	-	-
Total	**$ -**	**$ -**	**$ 52**	**$ 52**

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

Direct Loan Programs	Current Year	Prior Year
FHA Risk Sharing Program	$ (11)	$ 13
All Other		
a) Green Retrofit Program	-	(13)
b) Emergency Homeowners' Relief /fund	-	-
Total	**$ (11)**	**$ -**

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

Budget Subsidy Rates for Direct Loans

	2017				
Direct Loan Programs	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	0.0%	-1.0%	3.7%	-11.2%
All Other					
a) Green Retrofit Program	41.0%	42.6%	0.0%	-1.3%	82.3%
b) Emergency Homeowners' Relief /fund	0.0%	0.0%	0.0%	97.7%	97.7%

	2016				
Direct Loan Programs	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	0.0%	2.6%	-7.1%	0.0%	-4.5%
All Other					
a) Green Retrofit Program	41.0%	42.6%	0.0%	-1.3%	82.3%
b) Emergency Homeowners' Relief /fund	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 2017	FY 2016 (Restated)
Beginning balance of subsidy cost allowance	$ 64	$ 85
Add: subsidy expense for direct loans disbursed during reporting years by component:		
(a) Interest rate differential costs	(76)	(68)
(b) Default costs (net of recoveries)	1	5
(c) Fees and Other Collections	(18)	(9)
(d) Other subsidy costs	21	21
Total of the above subsidy expense components	(72)	(51)
Adjustments:		
(a) Loan Modifications	-	-
(b) Fees Received	3	1
(c) Foreclosed Properties Acquired	-	-
(d) Loans written off	(15)	(15)
(e) Subsidy allowance amortization	(4)	29
(f) Other	(4)	-
Ending Balance of the subsidy cost allowance before re-estimates	(28)	49
Add or Subtract Subsidy Re-estimates by Component:		
(a) Interest Rate Re-estimate	-	-
(b) Technical Default Re-estimate	113	51
Adjustment prior years' credit subsidy re-estimates	(49)	(36)
Total of the above re-estimate components	64	15
Ending Balance of the Subsidy Cost Allowance	**$ 36**	**$ 64**

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

2017

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 19	$ -	$ (4)	$ 5	$ 20
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	-	-	(4)	9	5
b) Multi Family	1,615	231	(682)	-	1,164
c) HECM	3	1	(1)	(2)	1
Total	**$ 1,637**	**$ 232**	**$ (691)**	**$ 12**	**$ 1,190**

2016

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 21	$ -	$ (5)	$ 7	$ 23
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	-	-	(3)	9	6
b) Multi Family	1,780	230	(817)	1	1,194
c) HECM	4	2	(5)	(2)	(1)
Total	**$ 1,805**	**$ 232**	**$ (830)**	**$ 15**	**$ 1,222**

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

2017	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 11,160	$ -	$ (6,133)	$ 1,437	$ 6,464
b) Multi Family	-	-	-	-	-
c) HECM	6,992	4,176	(5,052)	36	6,152
GI/SRI					
a) Single Family	416	-	(224)	35	227
b) Multi Family	645	(1)	(272)	1	373
c) HECM	3,701	1,981	(2,598)	79	3,163
H4H					
a) Single Family	5	-	(5)	1	1
All Other					
a) Indian Housing Loan Guarantee	-	-	-	13	13
b) Native Hawaiian Housing Loan Guarantee	-	-	-	-	-
Total	**$ 22,919**	**$ 6,156**	**$ (14,284)**	**$ 1,602**	**$ 16,393**

2016	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 10,320	$ 5	$ (7,327)	$ 2,817	$ 5,815
b) Multi Family	-	-	-	-	-
c) HECM	4,472	2,350	(1,580)	36	5,278
GI/SRI					
a) Single Family	350	-	(241)	73	182
b) Multi Family	735	-	(365)	1	371
c) HECM	3,595	1,830	(1,279)	132	4,278
H4H					
a) Single Family	5	-	(5)	1	1
All Other					
a) Indian Housing Loan Guarantee	-	-	-	37	37
b) Native Hawaiian Housing Loan Guarantee	-	-	-	(1)	(1)
Total	**$ 19,477**	**$ 4,185**	**$ (10,797)**	**$ 3,096**	**$ 15,961**

	2017	2016
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 20,249	$ 19,476

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

Loan Guarantee Programs	2017 Outstanding Principal Guaranteed Loans Face Value	2017 Amount of Outstanding Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 1,273,155	$ 1,154,481
b) GI/SRI Funds	136,283	123,018
c) H4H Program	82	73
All Other	8,405	8,401
Total	**$ 1,417,925**	**$ 1,285,973**

Loan Guarantee Programs	2016 Outstanding Principal Guaranteed Loans Face Value	2016 Amount of Outstanding Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 1,210,912	$ 1,100,636
b) GI/SRI Funds	127,629	115,226
c) H4H Program	90	82
All Other	7,862	7,857
Total	**$ 1,346,493**	**$ 1,223,801**

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

Loan Guarantee Programs	2017 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	$ 17,691	$ 103,597	$ 147,582

Loan Guarantee Programs	2016 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	$ 14,659	$ 104,669	$ 148,145

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

	2017			
	Outstanding Principal, Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
FHA				
a) MMI/CMHI Funds	$	250,926	$	248,307
b) GI/SRI Funds		16,884		16,807
c) H4H Program		-		-
All Other		871		871
Total	**$**	**268,681**	**$**	**265,985**

	2016 (Restated)			
	Outstanding Principal, Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
FHA				
a) MMI/CMHI Funds	$	245,551	$	242,990
b) GI/SRI Funds		12,224		12,169
c) H4H Program		-		-
All Other		980		979
Total	**$**	**258,755**	**$**	**256,138**

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

	2017					
Loans Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Esimated Future Default Claims		Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)		Total Liabilities For Loan Guarantees	
FHA Programs	$	8	$	20,059	$	20,067
All Other Programs		-		267		267
Total	$	8	$	20,326	$	20,334

Loans Guarantee Programs	2016 Liabilities for Losses on Pre-1992 Guarantees, Esimated Future Default Claims	2016 Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	2016 Total Liabilities For Loan Guarantees
FHA Programs	$ -	$ (2,360)	$ (2,360)
All Other Programs	-	303	303
Total	$ -	$ (2,057)	$ (2,057)

L. Subsidy Expense for Post-1991 Guarantees:

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

Loans Guarantee Programs	2017 Endorsement Amount	2017 Default Component	2017 Fees Component	2017 Other Component	2017 Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 250,925	$ 6,074	$ (19,525)	$ 2,359	$ (11,092)
b) MMI/CMHI Funds, HECM	17,691	1,249	(1,308)	-	(59)
c) GI/SRI Funds	267,787	214	(890)	-	(676)
c) H4H Program	-	-	-	-	-
All Other	-	20	(12)	-	8
Total	**$ 536,403**	**$ 7,557**	**$ (21,735)**	**$ 2,359**	**$ (11,819)**

Loans Guarantee Programs	2016 Endorsement Amount	2016 Default Component	2016 Fees Component	2016 Other Component	2016 Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 221,841	$ 5,586	$ (16,461)	$ 1,791	$ (9,084)
b) MMI/CMHI Funds, HECM	14,612	844	(945)	-	(101)
c) GI/SRI Funds	12,224	181	(661)	-	(480)
c) H4H Program	-	-	-	-	-
All Other	-	63	(13)	-	50
Total	**$ 248,677**	**$ 6,674**	**$ (18,080)**	**$ 1,791**	**$ (9,615)**

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

	2017			
Loans Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 21,112	$ 21,112
b) GI/SRI Funds	-	-	3,693	3,693
All Other	-	-	(22)	(22)
Total	**$ -**	**$ -**	**$ 24,783**	**$ 24,783**

	2016			
Loans Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ (7,896)	$ (7,896)
b) GI/SRI Funds	-	-	(289)	(289)
All Other	-	-	(67)	(67)
Total	**$ -**	**$ -**	**$ (8,252)**	**$ (8,252)**

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

Loans Guarantee Programs	**Current Year**	**Prior Year**
FHA		
a) MMI/CMHI Funds	$ 9,961	$ (17,081)
b) GI/SRI Funds	3,017	(769)
c) H4H Program	-	-
All Other	(14)	(17)
Total	**$ 12,964**	**$ (17,867)**

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

Budget Subsidy Rates for Loan Guarantees for FY 2017 Cohorts

Loans Guarantee Programs	Default	Fees and Other Collections	Total
FHA Programs			
MMI/CMHI Funds			
Single Family - Forward	2.4%	-7.8%	-5.4%
Single Family - HECM	7.1%	-7.4%	-0.3%
Single Family - Refinancing	8.3%	-8.3%	0.0%
Multifamily - Section 213	0.0%	0.0%	0.0%
GI/SRI Funds			
Apartments - NC/SC	1.5%	-4.2%	-2.7%
Apartments - NC/SC 04/01/2016	0.0%	0.0%	0.0%
Apartments - Refinance	0.5%	-4.2%	-3.7%
Apartments Refinance - 04/01/16	0.0%	0.0%	0.0%
Healthcare			
MF - FHA Full Insurance - Health Care	2.5%	-8.4%	-5.9%
MF - Hospitals	1.1%	-6.7%	-5.6%
H4H Programs			
Single Family - Section 257 (10/1/2009 - Present)	0.0%	0.0%	0.0%
All Other Programs			
CDBG, Section 108(b)	2.6%	-2.6%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	3.8%	-3.9%	-0.1%
Native Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	-0.3%
Title VI Indian Housing Loan Guarantee	11.2%	0.0%	11.2%

Budget Subsidy Rates for Loan Guarantees for FY 2016 Cohorts

Loans Guarantee Programs	Default	Fees and Other Collections	Total
FHA Programs			
MMI/CMHI Funds			
Single Family - Forward	2.3%	-6.1%	-3.8%
Single Family - HECM	5.8%	-6.5%	-0.7%
Single Family - Refinancing	10.0%	-10.0%	0.0%
Multifamily - Section 213	0.0%	0.0%	0.0%
GI/SRI Funds			
Apartments - NC/SC	2.4%	-5.2%	-2.8%
Apartments - NC/SC 04/01/2016	1.9%	-4.3%	-2.4%
Apartments - Refinance	0.3%	-5.0%	-4.7%
Apartments Refinance - 04/01/16	0.3%	-3.9%	-3.6%
Healthcare			
MF - FHA Full Insurance - Health Care	4.0%	-7.4%	-3.4%
MF - Hospitals	3.2%	-6.5%	-3.3%
H4H Programs			
Single Family - Section 257 (10/1/2009 - Present)	0.0%	0.0%	0.0%
All Other Programs			
CDBG, Section 108(b)	0.0%	0.0%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	0.6%	0.0%	0.6%
Native Hawaiian Home Guarantee Loan Fund	0.5%	0.0%	0.5%
Title VI Indian Housing Loan Guarantee	11.5%	0.0%	11.5%

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

Beginning Balance, Changes, and Ending Balance	2017	2016
Beginning balance of the loan guarantee liability	$ (503)	$ 15,571
Add: Subsidy Expense for guaranteed loans disbursed during reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	7,557	6,675
(c) Fees and Other Collections	(21,735)	(18,081)
(d) Other subsidy costs	2,359	1,791
Total of the above subsidy expense components	$ (11,819)	$ (9,615)
Adjustments:		
(a) Loan Guarantee Modifications	-	-
(b) Fees Received	14,581	14,043
(c) Interest Supplement Paid	-	-
(d) Foreclosed Properties and Loans Acquired	8,735	11,164
(e) Claims Payments to Lenders	(21,218)	(22,445)
(f) Interest Accumulation on the Liability Balance	282	(176)
(g) Other	45	814
Ending Balance of the loan guarantee liability before re-estimates	$ (9,897)	$ 9,356
Add or Subtract Subsidy Re-estimates by Component:		
(a) Interest Rate Re-estimate	-	-
(b) Technical Default Re-estimate	4,964	(3,587)
(c) Adjustment of prior years' credit subsidy re-estimates	25,817	(6,272)
Total of the above re-estimate components	30,781	(9,859)
Ending Balance of the Loan Guarantee Liability	$ 20,884	$ (503)
Adjustment for Unrealized Ginnie Mae claims from defaulted loans	$ (550)	$ (1,554)
Ending Balance of the Loan Guarantee Liability	**$ 20,334**	**$ (2,057)**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2017	2016
FHA	$ 534	$ 586
All Other	-	-
Total	$ 534	$ 586

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2017 and 2016 (dollars in millions):

	2017		
Description	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$ 3,071	$ (454)	$ 2,617
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	-	-
Properties Held for Sale, net	45	-	45
Foreclosed Property	309	(49)	260
Short Sale Claims Receivable	65	(47)	18
Total	**$ 3,490**	**$ (550)**	**$ 2,940**

	2016 (Restated)		
Description	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$ 3,615	$ (1,243)	$ 2,372
Advances Against Defaulted Mortgage-Backed Security Pools, net	21	-	21
Properties Held for Sale, net	41	-	41
Foreclosed Property	595	(217)	378
Short Sale Claims Receivable	107	(94)	13
Total	**$ 4,379**	**$ (1,554)**	**$ 2,825**

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

Mortgage Loans Held for Investment (HFI)

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, assume the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes the Master Sub-servicers 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 A, referred to as uninsured mortgage loans)

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

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

At year end, the majority of purchased mortgage loans were bought out of the pool due to borrower delinquency of more than three months.

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

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

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

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

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

The fair value option was not elected by Ginnie Mae for any recognized loans on its balance sheet in FY 2017 and FY 2016. The fair value option allows certain financial assets, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses). Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods. As the fair value option was not elected and Ginnie Mae has the ability and intent to hold these acquired loans for the foreseeable future or until maturity, the mortgage loans were classified as loans HFI and reported at amortized cost (net of allowance for loan losses).

Management is currently pursuing marketing activities to potentially sell loans currently recognized on Ginnie Mae's balance sheet. Once a plan of sale is developed and loans are clearly identified for sale, Ginnie Mae will reclassify the applicable loans from HFI to HFS (held for sale). For loans which Ginnie Mae initially classifies as HFI and subsequently transfers to HFS, those loans should be recognized at the lower of cost or fair value until sold.

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

Advances against Defaulted Mortgage-Backed Security Pools

Advances represent loan pass-through payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. Per U.S. GAAP, Ginnie Mae is required to report advances net of an allowance to the extent that management believes that they will not be collected. The allowance is estimated based on historical loss experience of future collections from the borrowers, proceeds from the sale of the property, or recoveries from third-party insurers such as FHA, USDA, VA, and PIH.

Once Ginnie Mae purchases the loans from the pools, the associated advances are reclassified to the appropriate asset class.

Properties Held for Sale, Net

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

Foreclosed Property

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

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

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, in 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 in which Ginnie Mae believes collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency. Management is currently assessing current and historic accounting practices for potential restatement.

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, 2017 and 2016 (dollars in millions):

	2017			2016		
Description	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 6	$ (2)	$ 4	$ 4	$ (3)	$ 1
Equipment - Ginnie Mae	4	(3)	1	5	-	5
Leasehold Improvements	1	-	1	-	-	-
Leasehold Improvements - Ginnie Mae	-	-	-	-	-	-
Internal Use Software	79	(71)	8	79	(68)	11
Internal Use Software - Ginnie Mae	168	(120)	48	138	(104)	34
Internal Use Software in Development	312	-	312	286	-	286
Internal Use Software in Development - Ginnie Mae	39	-	39	44	-	44
Capital Leases	-	-	-	-	-	-
Capital Leases - Ginnie Mae	1	(1)	-	-	-	-
Total	**$ 610**	**$ (197)**	**$ 413**	**$ 556**	**$ (175)**	**$ 381**

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for restricted net position (RNP) balances maintained by Public Housing Authorities under the Housing Choice Voucher Program. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP balances to cover any valid housing assistance program (HAP) expenses. PIH has estimated RNP balances of $337 million for FY 2017, consisting of $211 million for the Housing Choice Voucher Program and $126 million for the Moving to Work Program. In FY 2016, the estimated RNP balance of $380 million consisted of $209 million for the Housing Choice Voucher Program and $171 million for the Moving to Work Program.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2017 and 2016 (dollars in millions):

	2017				
Description	**FHA**	**Ginnie Mae**	**Section 8**	**All Other**	**Total**
Intragovernmental Assets:					
Other Assets	$ -	$ -	$ 3	$ 17	$ 20
Total Intragovernmental Assets	$ -	$ -	$ 3	$ 17	$ 20
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$ -	$ -	$ -	$ -	$ -
Other Assets	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 3**	**$ 17**	**$ 20**

	2016 (Restated)				
Description	**FHA**	**Ginnie Mae**	**Section 8**	**All Other**	**Total**
Intragovernmental Assets:					
Other Assets	$ -	$ -	$ 5	$ 38	$ 43
Total Intragovernmental Assets	$ -	$ -	$ 5	$ 38	$ 43
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$ -	$ -	$ -	$ -	$ -
Other Assets	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 5**	**$ 38**	**$ 43**

Intragovernmental Other Assets primarily represent the Department's Policy, Development, and Research program.

Note 12: Liabilities Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2017 and 2016 (dollars in millions):

Description	2017	2016 (Restated)
Intragovernmental		
Other Intragovernmental Liabilities	$ 364	$ 236
Total Intragovernmental Liabilities	$ 364	$ 236
Public		
Federal Employee and Veterans' Benefits	$ 65	$ 64
Loss Liability	268	2
Other Liabilities	281	132
Total Public	$ 614	$ 198
Total Not Covered	$ 978	$ 434
Total Covered	55,982	36,782
Total Liabilities	**$ 56,960**	**$ 37,216**

HUD's other governmental liabilities principally consist of Ginnie Mae's deferred revenue, FHA's special receipt account, and the Department's payroll costs.

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 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, 2017 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 555	$ 632	$ 1,187
Debt to the U.S. Treasury	30,447	(2,365)	28,082
Held by the Public	8	(5)	3
Total	$ 31,010	$ (1,738)	$ 29,272
Classification of Debt:			
Intragovernmental Debt			$ 29,269
Debt held by the Public			3
Total			**$ 29,272**

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2016 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 103	$ 452	$ 555
Debt to the U.S. Treasury	27,047	3,400	30,447
Held by the Public	8	-	8
Total	$ 27,158	$ 3,852	$ 31,010
Classification of Debt:			
Intragovernmental Debt			$ 31,002
Debt held by the Public			8
Total			**$ 31,010**

Interest paid on borrowings as of September 30, 2017 and 2016 was $1,159 million and $1,221 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings 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 and when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.67 percent to 7.36 percent during fiscal year 2017.

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program, and the Green Retrofit Program.

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

During the 1960s to 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. All FFB borrowings had been repaid.

Starting in FY 2015, FHA began a FFB Risk Share program, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans, and share in any losses.

Note 14: Federal Employee and Veterans' Benefits

HUD 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 $65 million as of September 30, 2017 and $64 million as of September 30, 2016. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2017 and 2016 (dollars in millions):

	2017		
Description	**Non-Current**	**Current**	**Total**
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,673	$ 1,673
Unfunded FECA Liability	14	-	14
Employer Contributions and Payroll Taxes	-	9	9
Miscellaneous Receipts Payable to Treasury	-	351	351
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	$ 14	$ 2,047	$ 2,061
Other Liabilities			
FHA Other Liabilities	$ -	$ 340	$ 340
FHA Escrow Funds Related to Mortgage Notes	-	296	296
Ginnie Mae Deferred Income	437	26	463
Deferred Credits	-	2	2
Deposit Funds	-	14	14
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	192	-	192
Other	7	9	16
Total	**$ 726**	**$ 2,766**	**$ 3,492**

	2016 (Restated)		
Description	**Non-Current**	**Current**	**Total**
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 2,765	$ 2,765
Unfunded FECA Liability	15	-	15
Employer Contributions and Payroll Taxes	-	9	9
Miscellaneous Receipts Payable to Treasury	-	221	221
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	$ 15	$ 3,009	$ 3,024
Other Liabilities			
FHA Other Liabilities	$ -	$ 543	$ 543
FHA Escrow Funds Related to Mortgage Notes	-	311	311
Ginnie Mae Deferred Income	286	20	306
Deferred Credits	139	4	143
Deposit Funds	-	9	9
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	55	-	55
Other	7	17	24
Total	**$ 579**	**$ 3,945**	**$ 4,524**

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.

Other Liabilities

As of September 30, 2017, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $243 million and miscellaneous liabilities of $97 million, which included disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $296 million. As of September 30, 2016, FHA premiums collected on unendorsed cases were $345 million, miscellaneous liabilities were $198 million, and escrow funds related to mortgage notes were $311 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collections for cases that have yet to be endorsed.

Other liabilities currently consist mostly of suspense funds, receipt accruals, and payroll-related costs. Other liabilities non-current are Ginnie Mae's Bank Popular liability for potential loan portfolio representation and warranty issues.

Note 16: Contingencies

Lawsuits and Other

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. A union grievance case, *Fair and Equitable Arbitration Remedy*, FMCS No. 03-07743, 66 FLRA 867, was filed based on alleged violations of articles of the parties' Collective Bargaining Agreement. The grievance alleged that HUD failed to treat employees fairly and equitably based upon the manner in which the Agency posted and subsequently selected candidates from job advertisements and vacancy announcements. Although the litigation is not final, the estimated potential loss is probable at this time. Pending litigation on this case will likely take one or many years to resolve. The Union's version of compliance could cost up to $695 million, including attorney's fees if the parties do not resolve this matter, and if the Union gets all of its requested relief. In addition, on January 18, 2016, the Court issued an Opinion and Order granting the Public Housing Authorities Directors Association plaintiffs summary judgment on the question of HUD's liability. The parties will now enter the damage phase of this case. It is the plaintiff's burden to establish damages. The likelihood of loss has switched from reasonably possible to probable, but the amount of loss remains uncertain at this time although the plaintiff's complaint did seek about $137 million. The Department recorded a contingent liability in its financial statements of $192 million as of September 30, 2017 and $55 million as of September 30, 2016. Other ongoing suits cannot be reasonably determined at this time, and in the opinion of management and general counsel, the ultimate resolution of the other pending litigation will not have a material effect on the Department's financial statements.

The general counsel has reviewed FHA's and Ginnie Mae's claims for FY 2017 and determined that as of September 30, 2017 and 2016, the ultimate resolution of legal actions would not affect FHA's consolidated financial statements. As a result, no contingent liability has been recorded. In addition, Ginnie Mae has concluded that they have no contingent liabilities as of September 30, 2017.

As a result of the damages incurred by the recent hurricanes Harvey, Irma, and Maria, HUD expects to provide recovery and assistance funding for those areas. While immediate Department efforts have been focused on providing relief to displaced residents, HUD is continuing to assess what impact the storms will have on its financial position. As HUD assesses the status of each project and case with lenders, additional guidance may be issued and legislative relief may be sought, if necessary, to alleviate potential claims and losses against the insurance funds.

MBS Loss Liability

Liability for loss on MBS program guaranty (MBS loss liability) represents the loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders due to probable issuer default. At year end, Ginnie Mae recorded loss reserves of $268 million, and $2 million in FY 2016. The issuers have the obligation to make timely principal and interest payments to investors. However, in the event whereby the issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee is measured under ASC Subtopic 450-20, *Contingencies – Loss Contingencies*.

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

Note 17: 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.

Rental Assistance Demonstration (RAD) Conversion Program

The Rental Assistance Demonstration (RAD) conversion program was created in order to give PHAs a powerful tool to preserve and improve public housing properties and address a nationwide backlog of deferred maintenance. RAD also gives program owners the opportunity to enter into long-term contracts that facilitate the financing of improvements.

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.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments for the Recovery Act program can be found on the HUD website, specifically on the Recovery page. Previously, all programs were categorized as Funds from Dedicated Collections. In FY 2017, two programs (Working Capital Fund Recovery Act and Green Retrofit Program) were changed to Other Funds based on exclusions noted in SFFAS No. 27.

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, 2017 (dollars in millions):

Balance Sheet	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Fund Balance w/Treasury	$ 2,332	$ 23	$ 31	$ 11	$ 482	$ 18	$ -	$ -	$ -	$ 2,897
Cash and Other Monetary Assets	40	-	-	-	-	-	-	-	-	40
Investments	17,276	-	-	-	-	-	-	-	-	17,276
Accounts Receivable	159	-	-	4	-	-	-	-	(1)	162
Loans Receivable	-	-	-	-	379	-	-	-	-	379
Other Non-Credit Reform Loans Receivable	3,490	-	-	-	-	-	-	-	-	3,490
General Property, Plant and Equipment	88	-	-	-	-	-	-	-	-	88
Other Assets	-	-	-	-	-	-	-	-	-	-
Total Assets	**$ 23,385**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 18**	**$ -**	**$ -**	**$ (1)**	**$ 24,332**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Payable - Intragovernmental	11	-	-	-	-	-	-	-	-	11
Accounts Payable - Public	52	-	-	-	-	2	-	-	-	54
Loan Guarantees	-	-	-	-	-	-	-	-	-	-
Loss Liability	268	-	-	-	-	-	-	-	-	268
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	472	-	-	-	-	-	-	-	-	$ 472
Total Liabilities	$ 803	$ -	$ -	$ -	$ -	$ 2	$ -	$ -	$ -	$ 805
Unexpended Appropriations	$ -	$ 23	$ 31	$ -	$ (375)	$ -	$ -	$ -	$ -	$ (321)
Cumulative Results of Operations	22,582	-	-	15	1,236	16	-	-	1	23,850
Total Net Position	$ 22,582	$ 23	$ 31	$ 15	$ 861	$ 16	$ -	$ -	$ 1	$ 23,529
Total Liabilities and Net Position	**$ 23,385**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 18**	**$ -**	**$ -**	**$ 1**	**$ 24,334**
Statement of Net Cost For the Period Ended										
Gross Costs	$ 582	$ 73	$ 49	$ -	$ (6)	$ 8	$ -	$ -	$ (1)	$ 705
Less Earned Revenues	$ (1,691)	$ -	$ -	$ -	$ (3)	$ (14)	$ -	$ -	$ -	(1,708)
Net Costs	**$ (1,109)**	**$ 73**	**$ 49**	**$ -**	**$ (9)**	**$ (6)**	**$ -**	**$ -**	**$ (1)**	**$ (1,003)**
Statement of Changes in Net Position for the Period Ended										
Net Position Beginning of Period	$ 21,473	$ 12	$ 18	$ 14	$ 851	$ 10	$ 9	$ -	$ -	$ 22,387
Correction of Errors	-	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	84	62	-	-	-	-	-	-	146
Imputed Costs	2	-	-	-	-	-	-	-	-	2
Donations and Forfeitures of Cash & Cash Equivalents	-	-	-	-	-	-	-	-	-	-
Penalties, Fines and Administrative Fees Revenue	1	-	-	1	1	-	-	-	-	3
Other Adjustments	(3)	-	-	-	-	-	(9)	-	-	(12)
Net Cost of Operations	1,109	(73)	(49)	-	9	6	-	-	1	1,003
Change in Net Position	$ 1,109	$ 11	$ 13	$ 1	$ 10	$ 6	$ (9)	$ -	$ 1	$ 1,142
Net Position End of Period	**$ 22,582**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 16**	**$ -**	**$ -**	**$ 1**	**$ 23,529**

The following shows funds from dedicated collections as of September 30, 2016 (Restated), (dollars in millions):

Balance Sheet	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Fund Balance w/Treasury	$ 1,379	$ 12	$ 18	$ 9	$ 433	$ 14	$ 8	$ -	$ -	$ 1,873
Cash and Other Monetary Assets	60	-	-	-	-	-	-	-	-	60
Investments	15,954	-	-	-	-	-	-	-	-	15,954
Accounts Receivable	168	-	-	4	-	-	-	-	-	172
Loans Receivable	-	-	-	-	417	-	-	-	-	417
Other Non-Credit Reform Loans Receivable	4,379	-	-	-	-	-	-	-	-	4,379
General Property, Plant and Equipment	83	-	-	-	-	-	-	-	-	83
Other Assets	-	-	-	-	-	-	-	-	-	-
Total Assets	**$ 22,023**	**$ 12**	**$ 18**	**$ 13**	**$ 850**	**$ 14**	**$ 8**	**$ -**	**$ -**	**$ 22,938**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Payable - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Accounts Payable - Public	92	-	-	-	-	3	-	-	-	95
Loan Guarantees	-	-	-	-	-	-	-	-	-	-
Loss Liability	2	-	-	-	-	-	-	-	-	2
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	455	-	-	-	-	-	-	-	-	455
Total Liabilities	$ 549	$ -	$ -	$ -	$ -	$ 3	$ -	$ -	$ -	$ 552
Unexpended Appropriations	$ -	$ 12	$ 18	$ (5)	$ (377)	$ -	$ 9	$ -	$ -	$ (343)
Cumulative Results of Operations	21,474	-	-	18	1,227	11	-	-	-	22,730
Total Net Position	$ 21,474	$ 12	$ 18	$ 13	$ 850	$ 11	$ 9	$ -	$ -	$ 22,387
Total Liabilities and Net Position	**$ 22,023**	**$ 12**	**$ 18**	**$ 13**	**$ 850**	**$ 14**	**$ 9**	**$ -**	**$ -**	**$ 22,939**
Statement of Net Cost For the Period Ended										
Gross Costs	$ 283	$ 33	$ 35	$ -	$ (4)	$ 15	$ 15	$ -	$ -	$ 377
Less Earned Revenues	$ (1,609)	$ -	$ -	$ -	$ (4)	$ (12)	$ -	$ -	$ -	(1,625)
Net Costs	**$ (1,326)**	**$ 33**	**$ 35**	**$ -**	**$ (8)**	**$ 3**	**$ 15**	**$ -**	**$ -**	**$ (1,248)**
Statement of Changes in Net Position for the Period Ended										
Net Position Beginning of Period	$ 20,175	$ 8	$ 9	$ 12	$ 841	$ 14	$ 54	$ -	$ -	$ 21,113
Correction of Errors	(32)	-	-	-	-	-	-	-	-	(32)
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	37	43	-	-	-	-	-	-	80
Imputed Costs	1	-	-	-	-	-	-	-	-	1
Donations and Forfeitures of Cash & Cash Equivalents	-	-	-	-	-	-	-	-	-	-
Penalties, Fines and Administrative Fees Revenue	2	-	-	1	1	-	-	-	-	4
Other Adjustments	-	-	-	-	-	-	(28)	-	-	(28)
Net Cost of Operations	1,326	(33)	(35)	-	8	(3)	(15)	-	-	1,248
Change in Net Position	$ 1,329	$ 4	$ 8	$ 1	$ 9	$ (3)	$ (43)	$ -	$ -	$ 1,305
Net Position End of Period	**$ 21,472**	**$ 12**	**$ 17**	**$ 13**	**$ 850**	**$ 11**	**$ 11**	**$ -**	**$ -**	**$ 22,386**

Note 18: 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 as of September 30, 2017 and 2016 (dollars in millions):

2017

Description	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Consolidating
Intragovernmental Costs	$ 1,172	$ 83	$ 263	$ 16	$ 11	$ 13	$ 54	$ 4	$ 198	$ 1,814
Public Costs	19,684	498	32,337	2,373	2,022	922	5,710	1,070	5,567	70,183
Subtotal Costs	$ 20,856	$ 581	$ 32,600	$ 2,389	$ 2,033	$ 935	$ 5,764	$ 1,074	$ 5,765	$ 71,997
Unassigned Costs									$ 185	$ 185
Total Costs										$ 72,182
Intragovernmental Earned Revenue	$ (1,675)	$ (165)	$ -	$ -	$ (1)	$ -	$ -	$ -	$ (16)	$ (1,857)
Public Earned Revenue	(78)	(1,526)	-	-	-	(92)	-	-	(18)	(1,714)
Total Earned Revenue	$ (1,753)	$ (1,691)	$ -	$ -	$ (1)	$ (92)	$ -	$ -	$ (34)	$ (3,571)
Net Cost of Operations	**$ 19,103**	**$ (1,110)**	**$ 32,600**	**$ 2,389**	**$ 2,032**	**$ 843**	**$ 5,764**	**$ 1,074**	**$ 5,916**	**$ 68,611**

2016 Restated

Description	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Consolidating
Intragovernmental Costs	$ 1,239	$ 5	$ 139	$ 29	$ 6	$ 17	$ 18	$ 4	$ 423	$ 1,880
Public Costs	(18,997)	278	30,604	2,966	1,951	957	6,268	1,163	5,838	31,028
Subtotal Costs	$ (17,758)	$ 283	$ 30,743	$ 2,995	$ 1,957	$ 974	$ 6,286	$ 1,167	$ 6,261	$ 32,908
Unassigned Costs									$ 262	$ 262
Total Costs										$ 33,170
Intragovernmental Earned Revenue	$ (1,151)	$ (85)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20)	$ (1,256)
Public Earned Revenue	(67)	(1,524)	-	-	5	(109)	-	-	(17)	(1,712)
Total Earned Revenue	$ (1,218)	$ (1,609)	$ -	$ -	$ 5	$ (109)	$ -	$ -	$ (37)	$ (2,968)
Net Cost of Operations	**$ (18,976)**	**$ (1,326)**	**$ 30,743**	**$ 2,995**	**$ 1,962**	**$ 865**	**$ 6,286**	**$ 1,167**	**$ 6,486**	**$ 30,202**

Note 19: Net Costs of HUD's Cross-Cutting Programs

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

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2017 (dollars in millions):

HUD's Cross-Cutting Programs	FY 2017 Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 98	$ 165	$ -	$ -	$ 263
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	98	165	-	-	263
Gross Costs with the Public	20,959	11,295	83	-	32,337
Earned Revenues	-	-	-	-	-
Net Costs with the Public	20,959	11,295	83	-	32,337
Net Program Costs	**$ 21,057**	**$ 11,460**	**$ 83**	**$ -**	**$ 32,600**
PIH					
Intragovernmental Gross Costs	$ 16	$ -	$ -	$ -	$ 16
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	16	-	-	-	16
Gross Costs with the Public	2,339	-	-	34	2,373
Earned Revenues	-	-	-	-	-
Net Costs with the Public	2,339	-	-	34	2,373
Net Program Costs	**$ 2,355**	**$ -**	**$ -**	**$ 34**	**$ 2,389**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 11	$ -	$ 11
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Total Intragovernmental Net Costs	-	-	10	-	10
Gross Costs with the Public	-	-	2,021	1	2,022
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	2,021	1	2,022
Net Program Costs	**$ -**	**$ -**	**$ 2,031**	**$ 1**	**$ 2,032**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 13	$ -	$ -	$ 13
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	13	-	-	13
Gross Costs with the Public	-	923	-	(1)	922
Earned Revenues	-	(3)	-	(89)	(92)
Net Costs with the Public	-	920	-	(90)	830
Net Program Costs	**$ -**	**$ 933**	**$ -**	**$ (90)**	**$ 843**
Community Development Block Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 54	$ -	$ 54
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	54	-	54
Gross Costs with the Public	61	-	5,638	11	5,710
Earned Revenues	-	-	-	-	-
Net Costs with the Public	61	-	5,638	11	5,710
Net Program Costs	**$ 61**	**$ -**	**$ 5,692**	**$ 11**	**$ 5,764**
HOME					
Intragovernmental Gross Costs	$ -	$ -	$ 4	$ -	$ 4
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	4	-	4
Gross Costs with the Public	-	-	1,070	-	1,070
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	1,070	-	1,070
Net Program Costs	**$ -**	**$ -**	**$ 1,074**	**$ -**	**$ 1,074**
All Other					
Intragovernmental Gross Costs	$ 80	$ 87	$ 36	$ (5)	$ 198
Intragovernmental Earned Revenues	(8)	(1)	(3)	(2)	(14)
Total Intragovernmental Net Costs	72	86	33	(7)	184
Gross Costs with the Public	4,846	284	472	(35)	5,567
Earned Revenues	-	(19)	-	(1)	(20)
Net Costs with the Public	4,846	265	472	(36)	5,547
Net Program Costs	**$ 4,918**	**$ 351**	**$ 505**	**$ (43)**	**$ 5,731**
Costs Not Assigned to Programs	62	81	42	-	185
Net Program Costs (including indirect costs)	**$ 4,980**	**$ 432**	**$ 547**	**$ (43)**	**$ 5,916**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2016 restated (dollars in millions):

HUD's Cross-Cutting Programs	FY 2016 (Restated) Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 126	$ 13	$ -	$ -	$ 139
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	126	13	-	-	139
Gross Costs with the Public	19,869	10,652	83	-	30,604
Earned Revenues	-	-	-	-	-
Net Costs with the Public	19,869	10,652	83	-	30,604
Net Program Costs	**$ 19,995**	**$ 10,665**	**$ 83**	**$ -**	**$ 30,743**
PIH					
Intragovernmental Gross Costs	$ 29	$ -	$ -	$ -	$ 29
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	29	-	-	-	29
Gross Costs with the Public	2,957	-	-	9	2,966
Earned Revenues	-	-	-	-	-
Net Costs with the Public	2,957	-	-	9	2,966
Net Program Costs	**$ 2,986**	**$ -**	**$ -**	**$ 9**	**$ 2,995**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 6	$ 6
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	-	6	6
Gross Costs with the Public	-	-	1,914	37	1,951
Earned Revenues	-	-	-	5	5
Net Costs with the Public	-	-	1,914	42	1,956
Net Program Costs	**$ -**	**$ -**	**$ 1,914**	**$ 48**	**$ 1,962**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 17	$ -	$ -	$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	17	-	-	17
Gross Costs with the Public	2	955	-	-	957
Earned Revenues	-	-	-	(109)	(109)
Net Costs with the Public	2	955	-	(109)	848
Net Program Costs	**$ 2**	**$ 972**	**$ -**	**$ (109)**	**$ 865**
Community Development Block Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 17	$ -	$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	17	-	17
Gross Costs with the Public	59	-	6,203	7	6,269
Earned Revenues	-	-	-	-	-
Net Costs with the Public	59	-	6,203	7	6,269
Net Program Costs	**$ 59**	**$ -**	**$ 6,220**	**$ 7**	**$ 6,286**
All Other					
Intragovernmental Gross Costs	$ 38	$ 109	$ 38	$ 238	$ 423
Intragovernmental Earned Revenues	-	-	-	(20)	(20)
Total Intragovernmental Net Costs	38	109	38	218	403
Gross Costs with the Public	4,812	214	550	262	5,838
Earned Revenues	-	-	-	(17)	(17)
Net Costs with the Public	4,812	214	550	245	5,821
Net Program Costs	**$ 4,850**	**$ 323**	**$ 588**	**$ 463**	**$ 6,224**
Costs Not Assigned to Programs	89	104	69	-	262
Net Program Costs (including indirect costs)	**$ 4,939**	**$ 427**	**$ 657**	**$ 463**	**$ 6,486**

Note 20: 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 incurring 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 year 1988, HUD's subsidy programs, primarily the Section 8 program and 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 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 existed to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and 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 general, 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, 2017 (dollars in millions):

	Undelivered Orders				
Programs	Unexpended Appropriations	Permanent Indefinite	Investment Authority	Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 143	$ 81	$ -	$ 2,584	$ 2,808
Ginnie Mae	-	-	-	679	679
Section 8 Rental Assistance	8,269	-	-	-	8,269
Low Rent Public Housing Loans and Grants	4,187	-	-	-	4,187
Homeless Assistance Grants	2,351	-	-	-	2,351
Housing for the Elderly and Disabled	1,388	-	-	-	1,388
Community Development Block Grants	14,755	-	-	-	14,755
HOME Partnership Investment Program	2,138	-	-	-	2,138
Section 235/236	592	-	-	-	592
All Other	2,409	-	-	-	2,409
Total	**$ 36,232**	**$ 81**	**$ -**	**$ 3,263**	**$ 39,576**

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2016 (dollars in millions):

	Undelivered Orders				
Programs	Unexpended Appropriations	Permanent Indefinite	Investment Authority	Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 127	$ 80	$ -	$ 1,989	$ 2,196
Ginnie Mae	-	-	-	448	448
Section 8 Rental Assistance	8,898	-	-	-	8,898
Low Rent Public Housing Loans and Grants	4,041	-	-	-	4,041
Homeless Assistance Grants	2,215	-	-	-	2,215
Housing for the Elderly and Disabled	1,623	-	-	-	1,623
Community Development Block Grants	9,588	-	-	-	9,588
HOME Partnership Investment Program	2,647	-	-	-	2,647
Section 235/236	742	-	-	-	742
All Other	2,739	-	-	-	2,739
Total	**$ 32,620**	**$ 80**	**$ -**	**$ 2,437**	**$ 35,137**

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, 2017 (dollars in millions):

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**Offsetting Collections**	**Total Reservations**
Ginnie Mae	$ -	$ -	$ 7	$ 7
Section 8 Rental Assistance	91	-	-	91
Low Rent Public Housing Loans and Grants	31	-	-	31
Homeless Assistance Grants	278	-	-	278
Housing for the Elderly and Disabled	135	-	-	135
Community Development Block Grants	2,077	-	-	2,077
HOME Partnership Investment Program	612	-	-	612
All Other	435	-	-	435
Total	**$ 3,659**	**$ -**	**$ 7**	**$ 3,666**

The following chart shows HUD's administrative commitments as of September 30, 2016 (dollars in millions):

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**Offsetting Collections**	**Total Reservations**
Ginnie Mae	$ -	$ -	$ -	$ -
Section 8 Rental Assistance	194	-	-	194
Low Rent Public Housing Loans and Grants	9	-	-	9
Homeless Assistance Grants	231	-	-	231
Housing for the Elderly and Disabled	140	-	-	140
Community Development Block Grants	7,436	-	-	7,436
HOME Partnership Investment Program	226	-	-	226
All Other	266	-	-	266
Total	**$ 8,502**	**$ -**	**$ -**	**$ 8,502**

Note 21: 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 as of September 30, 2017 and 2016, were as follows (dollars in millions):

	Category A	Category B	Total
2017			
Direct	$ 1,040	$ 112,342	$ 113,382
Reimbursable	-	4,350	4,350
Total	**$ 1,040**	**$ 116,692**	**$ 117,732**

	Category A	Category B	Total
2016			
Direct	$ 912	$ 105,436	$ 106,348
Reimbursable	-	3,827	3,827
Total	**$ 912**	**$ 109,263**	**$ 110,175**

Note 22: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

For FY 2016, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the differences between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2016 (dollars in millions):

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Per the FY2016 Statement of Budgetary Resources (SBR)	$ 196,009	$ 110,175	$ 2,302	$ 50,854
Expired Funds in SBR not included in the President's Budget	(849)	-	-	-
Offsetting receipts not included in the President's Budget	-	-	(198)	-
Timing difference related to the recordation of Borrowing Authority	234	-	-	-
Miscellaneous Differences	(62)	(5)	(1)	(6)
Budget of the U.S. Government	**$ 195,332**	**$ 110,170**	**$ 2,103**	**$ 50,848**

Note 23: 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 for September 30, 2017 and 2016 is as follows (dollars in millions):

	2017	2016 (Restated)
Budgetary Resources Obligated		
Obligations Incurred	$ 117,732	$ 110,175
Spending Authority from Offsetting Collections and Recoveries	(65,240)	(62,119)
Obligations Net of Offsetting Collections	$ 52,492	$ 48,056
Offsetting Receipts	(1,369)	(2,302)
Net Obligations	$ 51,123	$ 45,754
Other Resources		
Transfers In/Out Without Reimbursement	$ (2)	$ -
Imputed Financing from Costs Absorbed by Others	55	159
FHA Other Resources	(413)	(2,064)
Net Other Resources Used to Finance Activities	$ (360)	$ (1,905)
Total Resources Used to Finance Activities	$ 50,763	$ 43,849
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods/Services/Benefits Ordered but Not Yet Provided	$ (4,346)	$ 3,317
Credit Program Collections that Increase LLG or Allowances for Subsidy	441	517
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(52,448)	(49,156)
Resources that Fund Expenses from Prior Periods	(4,246)	(6,886)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	58,808	56,032
Other	731	1,352
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (1,060)	$ 5,176
Total Resources Used to Finance the Net Cost of Operations	$ 49,703	$ 49,025
Components of the Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 30,842	$ (9,737)
Increase in Exchange Revenue Receivable from the Public	(164)	(109)
Revaluation of Assets or Liabilities	44	-
Depreciation and Amortization	23	21
Increase In Annual Leave Liability	(1)	57
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(11,857)	(9,716)
Other	21	661
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ 18,908	$ (18,823)
Net Cost of Operations	**$ 68,611**	**$ 30,202**

HUD included the following items in line 2 above titled "Spending Authority from Offsetting Collections and Recoveries": Actual Offsetting Collections (SBR line 4176), Changes in Uncollected Customer Payments from Federal Sources (SBR line 4177), and Recoveries (SBR line 3042). Ginnie Mae used an alternative calculation for their non-administrative funds as follows: Spending Authority from Offsetting Collections (SBR line 1890) and Recoveries (SBR line 3042).

Note 24: Restatement of the Department's Fiscal Year 2016 Financial Statements

During fiscal year 2017, the Department identified errors in the fiscal year 2016 financial statements and notes caused by mathematical mistakes, mistakes in the application of accounting principles, and oversight of facts that existed when the statements were originally prepared. Although, the errors are generally not material at the consolidated level, some errors were material at the stand-alone component level (Ginnie Mae and Federal Housing Administration). The errors caused assets, liabilities, cumulative results of operation, and budgetary resources to be understated, and net cost to be overstated. These errors have been corrected at the component level, resulting in restated consolidated financial statements for fiscal year 2016, which flow-through to the beginning balances of the fiscal year 2017 consolidated financial statements. HUD will work with the components to strengthen controls, review accounting principle application, and develop analytical tools.

The components had errors in their loan and guarantee modeling methodologies and calculations, mistakes in applying some commercial and federal accounting principles, and a limited number of mathematical mistakes related to data oversights. Ginnie Mae misapplied accounting principles related to loan impairment guidance, which caused inappropriate values to be considered in calculating the loan loss allowance. The loan loss allowance model has been realigned to address the accounting principles issues, but the underlining data for the model continues to have deficiencies; thus, the resulting information should not be relied upon. In addition, Ginnie Mae made changes in recognizing revenue related to fees collected for security issuances, corrected invalid balances related to accounts payable, properly reversed accrued liabilities and related expenses, and recorded deposits in transits for multiclass fees collected. Federal Housing Administration omitted a limited number of active guarantees in their endorsement calculations, did not consider a full year of data in another instance to determine outstanding loan guarantees, and used an inconsistent discount factor in the re-estimate process for one loan program, which primarily impacted Note 7. The market value for long term-securities for Federal Housing Administration primarily impacted Note 5. Separately, HUD recorded an imputed cost for a legal claim that was paid by the Treasury Judgement Fund to the incorrect program and mis-categorized two American Recovery and Reinvestment Act Programs as dedicated collections.

There were other potential material misstatements in the fiscal year 2017 financial statements and no adjustments had been made because the specific amount of the misstatements and their related effects were unknown.

The related effect of correcting these errors on the previously issued fiscal year 2016 consolidated financial statements, Notes 5, and 7 was as follows:

Balance Sheet. Total assets and total liabilities increased by $200 million and $112 million, respectively, and total net position increased by $88 million. Specifically, cash increased by $53 million, accounts receivable increased by $55 million, other non-credit reform loans increased by $145 million, other assets decreased by $53 million, accounts payable decreased by $20 million, loss reserves decreased by $1 million, other governmental liabilities increased by $133 million. Other Assets was affected by FHA's Public Escrow Monies Deposited at Minority-Owned Banks with a decrease of $29 million and Other Assets decreasing by $24 million.

Statement of Changes in Net Position. Cumulative results of operations were impacted by a decrease in net cost of operations of $112 million. This was offset by decreases in both the cumulative results of operations, beginning balance of $23 million and non-exchange revenue of $1 million. The recategorization of dedicated collections, while having a zero impact on overall net position, resulted in a $13 million decrease to Net Position for Funds from Dedicated Collections and a $13 million increase to Net Position for Other Funds.

Statement of Net Cost. Gross costs and earned revenue decreased by $149 million and $37 million, respectively, resulting in an overall decrease in net cost of operations of $112 million. The charging of imputed cost for a legal claim to the correct program, while having zero impact on the overall Net Cost, resulted in a $90 million gross costs decrease to the All Other line and a $90 million increase to the Section 8 Rental Assistance line.

Statement of Budgetary Resources. Adjustments to unobligated balance brought forward increased by $20 million, and unapportioned unexpired accounts increased by $20 million.

Note 5: Investments. The Long-Term Securities for FY 2016, the Market Value decreased by $38 million.

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers. The impact for the Loan Guaranteed Loans Disbursed for 2016 affected the FHA MMI/CMCHI funds for the Outstanding Principal, Guaranteed Loans, Face Value line increased by $23,710 million and for the Outstanding Principal Guaranteed amount also increased by $23,124 million.

Required Supplementary Stewardship Information

Introduction

This narrative provides information on resources utilized by HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand investments made by HUD for the benefit of the Nation. The stewardship objective requires that HUD also report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help the reader to better assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the amounts and in the application of the related administrative costs, most of the investments reported reflect direct program costs only. The investments addressed in this narrative are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

Overview of HUD's Major Programs

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdictions. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition, construction or rehabilitation of permanent, residential structures that qualify as occupied by and benefiting low- and moderate-income persons, while other funds help to provide employment and job training to low- and moderate-income persons.
- **Disaster Recovery Assistance (Disaster Grants/CDBG-DR)** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.

- **The HOME Investment Partnerships Program (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – Continuum of Care (CoC)** The Supportive Housing Program (SHP) was repealed and replaced by the Continuum of Care (CoC) Program effective FY 2012. The CoC is a body of stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.
- **Neighborhood Stabilization Program (NSP)** stabilizes communities that have suffered from foreclosures and abandonment. This includes providing technical assistance **(NSP TA)** as well as the purchase and redevelopment of foreclosed and abandoned homes and residential properties.
- **Housing Opportunities for People with HIV/AIDS (HOPWA)** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **Rural Innovation Fund (RIF)** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants promote an ‘entrepreneurial approach’ to affordable housing and economic development in rural areas by providing job training, homeownership counseling, and affordable housing to residents of rural and tribal communities.
- **Community Compass (formerly OneCPD)** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents’ self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.

- The **Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.
- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.

The **OLHCHH** program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other childhood diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **The Lead Technical Assistance Division,** in support of the Departmental Lead Hazard Control program, supports technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.
- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

RSSI Reporting – HUD's Major Programs

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table below summarizes material program investments in Non-Federal Physical Property, for fiscal years 2013 through 2017.

Investments in Non-Federal Physical Property
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
CPD					
CDBG	$1,129	$986	$922	$996	$992
Disaster Grants[1]	$327	$323	$400	$401	$321
HOME	$21	$24	$18	$14	$10
SHP/CoC - Homeless[2]	$1	$1	$0	$3	$2
NSP [3]	$6	$1	$1	$1	$0
RIF [4]	$3	$1	$0	$0	$0
PIH					
ICDBG [5]	$54	$56	$59	$57	$55
NHHBG	$12	$10	$9	$0	$2
IHBG [6]	$284	$254	$312	$242	$267
HOPE VI [7]	$127	$82	$57	$63	$20
Choice Neighborhoods [8]	$3	$22	$43	$70	$49
PH Capital Fund	$1,798	$1,706	$1,916	$1,830	$1,698
TOTAL	**$3,765**	**$3,466**	**$3,737**	**$3,677**	**$3,416**

Notes:

1. *Disasters are unpredictable, which causes material fluctuations. Grantees make action plan amendments which results in adjustments to DRGR. This and differences in the timeliness of reporting results in the prior years' numbers being updated.*
2. *Low dollar value was due to shrinking resources for new programs.*
3. *Program is nearing closeout, hence the reduction in disbursements between FY 2013 and FY 2014 and further reduction in FY 2017 to an amount not material to be included in the AFR.*
4. *Amount reported for FY 2015 is not material to be included in the AFR. More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was 09/30/2015.*
5. *Amounts here are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended.*
6. *Historical amounts were updated to reflect corrections made since the last report.*

7. *FY 2017: The decrease represents reduced LOCCS drawdown activity in Physical Property, as only 6% of the awarded HOPE VI grants had funds drawn from the eligible budget line items.*
8. *In FY 2017, an additional 5 grantees have begun to report development expenditures after being awarded a grant in 2016. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Human Capital, for fiscal years 2013 through 2017.

Investments in Human Capital
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
CPD					
CDBG	$24	$26	$25	$21	$32
Disaster Grants [1]	$284	$750	$347	$386	$251
ESG	$3	$3	$3	$3	$5
NSP TA [2]	$1	$0	$0	$0	$0
SHP/CoC - Homeless	$31	$26	$25	$16	$15
HOPWA	$1	$1	$0	$0	$0
Community Compass [3]	$21	$29	$38	$48	$54
PIH					
IHBG [4]	$1	$1	$2	$1	$8
HOPE VI	$12	$14	$5	$5	$6
Choice Neighborhoods [5]	$2	$3	$5	$12	$9
OLHCHH					
Lead Technical Assistance	$0	$1	$0	$0	$0
TOTAL	**$380**	**$854**	**$450**	**$492**	**$380**

Notes:

1. *New grantees received significant TA in FY 2016. In FY 2017, they are well established, hence the decrease. Homeownership Assistance for LMI was not to be included in the training data for current and prior years, hence the revisions to FY 2013 through FY 2016.*
2. *Program is nearing closeout, hence the reduced expenditures in FY 2014, FY 2015 and FY 2016 which are not material to be included in the AFR. All training portions of NSP are expected to end in FY 2017.*
3. *The FY 2017 expenditure increase is due to management focusing on timely utilization of older TA funding and an increase in TA staff which improved overall award management.*

4. *In FY 2017, ONAP focused on providing much more contracted technical assistance directly to tribes at their locations. Training funds were offered through a Notice of Funding Availability (NOFA) competition.*
5. *In FY 2017, an additional 5 grantees have begun to report development expenditures after being awarded a grant in 2016. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.*

Results of Human Capital Investments: The table on the next page presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for fiscal years 2013 through 2017.

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2013 – 2017

Program	2013	2014	2015	2016	2017
CPD					
CDBG	68,236	54,350	51,808	47,805	73,922
SHP/CoC - Homeless [1]	16.5%	11.9%	N/A	N/A	N/A
HOPWA	1,595	1,415	1,064	502	956
NSP TA [2]	3,494	385	17	6	5
RIF [3]	1,048	279	397	0	0
Community Compass [4]	9,791	13,722	31,631	32,823	27,195
PIH					
NHHBG [5]	0	0	0	113	5
IHBG [6]	1,077	1,167	1,756	1,752	1,812
HOPE VI (*see table on page 7*)					
Choice Neighborhoods (*see table on page 8*)					
OLHCHH					
Lead Technical Assistance [7]	590	1,069	512	2,120	475
TOTAL	**85,831**	**72,387**	**87,185**	**85,121**	**104,370**

Notes:
1. *SHP/CoC – Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. Goals are changing, and the data is not available to compare FY 2015, FY 2016 or FY 2017 to the prior year based on the old goal.*
2. *In FY 2014, Technical Assistance (TA) was separated from the NSP programs to capture all the resources required to produce training products. In FY 2014 and going forward, NSP will use the activity Public Services to capture the investment in human capital. This resulted in revisions to the amounts for FY 2013 through FY 2016. The program is nearing closeout, hence the reduced numbers of people trained in FY 2014 through FY 2017.*
3. *More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was 09/30/2015. Expenditures under investments for human capital, in FY 2013 through FY 2015, were not material to be included in the AFRs.*
4. *For FY 2017, numbers trained are significantly lower due to difference in the number of completed recorded trainings between FY 2016, 15,257, and FY 2017, 3,462. The FY 2016 number erroneously included the total number of completions for all recorded trainings ever posted. The number provided for FY 2017 is for completions in FY 2017 only, for all*

recorded trainings ever posted. The FY 2016 reported number will be updated upon receipt of the revised total, analysis is underway.

5. *A lack of S&E funding prevented ONAP from offering training in FY 2013-2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. In FY 2017, ONAP focused on providing technical assistance directly to the grantee. Amounts invested in FY 2016 and FY 2017 were not material to be included in the AFR.*
6. *New training funds were offered through a Notice of Funding Availability (NOFA) competition for contractors to provide training in FY 2015-2017.*
7. *In FY 2017 the OLHCHH did not host a National Healthy Homes Conference. It did host a Program Mgrs. school, and New Grantee Orientation. There were 125 people trained at the New Grantee Orientation and 350 people trained at the Program Managers School.*

HOPE VI/Choice Neighborhoods Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key performance information for fiscal years 2013 through 2017, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2013 – 2017

HOPE VI Service	2013 Enrolled	2013 Completed	% Completed	2014 Enrolled	2014 Completed	% Completed
Employment Preparation, Placement & Retention [1]	84,792	N/A	N/A	85,997	N/A	N/A
Job Skills Training Programs	34,664	18,322	53%	35,001	18,536	53%
High School Equivalent Education	18,206	5,263	29%	18,389	5,315	29%
Entrepreneurship Training	3,730	1,635	44%	3,746	1,649	44%
Homeownership Counseling	16,504	7,046	43%	16,650	7,160	43%
HOPE VI Service	**2015 Enrolled**	**2015 Completed**	**% Completed**	**2016 Enrolled**	**2016 Completed**	**% Completed**
Employment Preparation, Placement & Retention [1]	87,005	N/A	N/A	87,564	N/A	N/A
Job Skills Training Programs	35,364	18,685	53%	35,675	18,877	53%
High School Equivalent Education	18,533	5,334	29%	18,705	5,381	29%
Entrepreneurship Training	3,755	1,654	44%	3,795	1,682	44%
Homeownership Counseling	16,837	7,350	44%	17,399	7,804	45%

Key Results of HOPE VI Program Activities
Fiscal Years 2013 – 2017 Cont'd

HOPE VI Service	2017 Enrolled	2017 Completed	% Completed
Employment Preparation, Placement & Retention [1]	87,861	N/A	N/A
Job Skills Training Programs	35,748	18,917	53%
High School Equivalent Education	18,792	5,390	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,410	7,805	45%

Notes:
1. *Completion data for this service is not provided, as all who enroll are considered recipients of the training.*

The following table presents Choice Neighborhoods cumulative performance information for fiscal years 2014 through 2017.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2014 – 2017

Choice Neighborhoods Service	2014[1]	2015	2016	2017
Current Total Original Assisted Residents	5,813	7,017	10,089	13,446
Current Total Original Assisted Residents in Case Management	2,900	3,063	4,882	7,596
High School Graduation Rate [2]	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867	343	119

Notes:
1. *2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.*
2. *Program level High School Graduation Rate date is currently not available for 2014 through 2017, due to metric only requiring individual grantees to enter rates and not numerator and denominator.*

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge and/or (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits.

As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America's communities; and ensure public trust in HUD.

The following table summarizes HUD's research and development investments, for fiscal years 2013 through 2017.

Investments in Research and Development
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
OLHCHH					
Lead Hazard Control	$2	$3	$4	$5	$6
TOTAL	**$2**	**$3**	**$4**	**$5**	**$6**

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OLHCHH program has conducted various studies. Such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts over the last decade. More recently, as indicated in the following table, increased supply and labor costs have contributed to increases in the per-housing unit cost through FY 2016. The per-housing unit cost varies by geographic location and the grantees' level of participation in control activities. These studies have also led to the identification of the prevalence of related hazards.

Results of Research and Development Investments
Fiscal Year 2013 – 2017
(Dollars)

Program	2013	2014	2015	2016	2017
OLHCHH					
Lead Hazard Control Per-Housing Unit Cost	$6,321	$7,755	$8,909	$9,048	$8,437
TOTAL	**$6,321**	**$7,755**	**$8,909**	**$9,048**	**$8,437**

Required Supplementary Information

U.S. Department of Housing And Urban Development
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2017
(Dollars in Millions)

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Administration Non-Budgetary	Other Non Budgetary Credit Program Accounts	Total Non Budgetary Credit Reform Financing Account	Combined
Budgetary Resources:															
Unobligated Balance Brought Forward, Oct 1	$ 37,758	$ 16,058	$ 929	$ 108	$ 2,972	$ 636	$ 8,021	$ 265	$ 2,009	$ 68,756	$ 16,411	$ 211	$ 456	$ 17,078	$ 85,834
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-	-	-	(7)	(7)	234	-	-	234	227
Unobligated Balance Brought Forward, Oct 1, As Adjusted	**37,758**	**16,058**	**929**	**108**	**2,972**	**636**	**8,021**	**265**	**2,002**	**68,749**	**16,645**	**211**	**456**	**17,312**	**86,061**
Recoveries of Unpaid Prior Year Obligations	11	30	123	37	260	14	20	20	118	633	82	1	4	87	720
Other Changes in Unobligated Balance	(425)	(1,999)	(29)	(4)	(196)	(384)	(15)	(16)	(63)	(3,131)	-	1,996	-	1,996	(1,135)
Unobligated Balance From Prior Year Budget Authority, Net	**37,344**	**14,089**	**1,023**	**141**	**3,036**	**266**	**8,026**	**269**	**2,057**	**66,251**	**16,727**	**2,208**	**460**	**19,395**	**85,646**
Appropriations (Discretionary and Mandatory)	4,473	-	31,290	2,558	2,382	649	12,666	950	7,250	62,218	-	-	-	-	62,218
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-	-	-	8,375	-	2	8,377	8,377
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	13,288	3,795	-	-	-	330	-	-	97	17,510	34,665	2,471	56	37,192	54,702
Total Budgetary Resources	**$ 55,105**	**$ 17,884**	**$ 32,313**	**$ 2,699**	**$ 5,418**	**$ 1,245**	**$ 20,692**	**$ 1,219**	**$ 9,404**	**$ 145,979**	**$ 59,767**	**$ 4,679**	**$ 518**	**$ 64,964**	**$ 210,943**
Status of Budgetary Resources															
New Obligations and Upward Adjustments (Total)															
Direct	**$ 23,217**	**$ 29**	**$ 31,485**	**$ 2,500**	**$ 2,400**	**$ 686**	**$ 10,794**	**$ 575**	**$ 6,644**	**$ 78,330**	**$ 34,975**	**$ -**	**$ 77**	**$ 35,052**	**$ 113,382**
Reimbursable	-	**272**	-	-	-	-	-	-	**46**	**318**	-	**4,032**	-	**4,032**	**4,350**
Subtotal	$ 23,217	$ 301	$ 31,485	$ 2,500	$ 2,400	$ 686	$ 10,794	$ 575	$ 6,690	$ 78,648	$ 34,975	$ 4,032	$ 77	$ 39,084	$ 117,732
Unobligated Balances, End of Year															
Apportioned, Unexpired Accounts	69	206	553	152	2,411	214	2,086	613	1,692	7,996	6,271	398	82	6,751	14,747
Unapportioned, Unexpired Accounts	31,761	17,376	275	33	16	315	7,809	1	899	58,485	18,521	249	359	19,129	77,614
Unexpired Unobligated Balance, End of Year	**31,830**	**17,582**	**828**	**185**	**2,427**	**529**	**9,895**	**614**	**2,591**	**66,481**	**24,792**	**647**	**441**	**25,880**	**92,361**
Expired Unobligated Balance, End of Year	58	1	-	14	591	30	3	30	123	850	-	-	-	-	850
Unobligated Balance, End of Year (Total)	**31,888**	**17,583**	**828**	**199**	**3,018**	**559**	**9,898**	**644**	**2,714**	**67,331**	**24,792**	**647**	**441**	**25,880**	**93,211**
Total Budgetary Resources	**$ 55,105**	**$ 17,884**	**$ 32,313**	**$ 2,699**	**$ 5,418**	**$ 1,245**	**$ 20,692**	**$ 1,219**	**$ 9,404**	**$ 145,979**	**$ 59,767**	**$ 4,679**	**$ 518**	**$ 64,964**	**$ 210,943**
Change in Obligated Balance															
Unpaid Obligations:															
Unpaid Obligations, Brought Forward, Oct 1	$ 347	$ 342	$ 8,902	$ 4,410	$ 2,392	$ 1,641	$ 11,337	$ 2,965	$ 3,972	$ 36,308	$ 2,650	$ 201	$ 5	$ 2,856	$ 39,164
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-	-	-	7	7	-	-	-	-	7
New Obligations and Upward Adjustments	23,217	301	31,485	2,500	2,400	686	10,794	575	6,690	78,648	34,975	4,032	77	39,084	117,732
Outlays (Gross)	(23,160)	(226)	(31,992)	(2,374)	(1,994)	(900)	(5,617)	(1,104)	(7,098)	(74,465)	(34,181)	(3,875)	(77)	(38,133)	(112,598)
Recoveries of Prior Year Unpaid Obligations	(11)	(30)	(123)	(37)	(260)	(14)	(20)	(20)	(118)	(633)	(82)	(1)	(4)	(87)	(720)
Unpaid Obligations, End of Year	393	387	8,272	4,499	2,538	1,413	16,494	2,416	3,453	39,865	3,362	357	1	3,720	43,585
Uncollected Payments:															
Uncollected Pymts, Fed Sources, Brought Forward, Oct 1	(35)	-	-	-	-	(1)	-	-	(5)	(41)	-	-	(51)	(51)	(92)
Change in Uncollected Pymts, Fed Sources	(13)	-	-	-	-	-	-	-	1	(12)	-	-	7	7	(5)
Uncollected Pymts, Fed Sources, End of Year	(48)	-	-	-	-	(1)	-	-	(4)	(53)	-	-	(44)	(44)	(97)
Memorandum (non-add) Entries:															
Obligated Balance, Start of Year	**$ 312**	**$ 342**	**$ 8,902**	**$ 4,410**	**$ 2,392**	**$ 1,640**	**$ 11,337**	**$ 2,965**	**$ 3,974**	**$ 36,274**	**$ 2,650**	**$ 201**	**$ (46)**	**$ 2,805**	**$ 39,079**
Obligated Balance, End of Year	**$ 345**	**$ 387**	**$ 8,272**	**$ 4,499**	**$ 2,538**	**$ 1,412**	**$ 16,494**	**$ 2,416**	**$ 3,449**	**$ 39,812**	**$ 3,362**	**$ 357**	**$ (43)**	**$ 3,676**	**$ 43,488**
														-	-
Budget Authority and Outlays, Net															
Budget Authority, Gross (Discretionary and Mandatory)	$ 17,761	$ 3,795	$ 31,290	$ 2,558	$ 2,382	$ 979	$ 12,666	$ 950	$ 7,347	$ 79,728	$ 43,040	$ 2,471	$ 58	$ 45,569	$ 125,297
Actual Offsetting Collections (Discretionary and Mandatory)	(13,275)	(3,907)	-	(1)	(1)	(330)	(1)	-	(108)	(17,623)	(44,469)	(2,472)	(65)	(47,006)	(64,629)
Change in Uncollected Pymts, Fed Sources (Discretionary and Mandatory)	(13)	-	-	-	-	-	-	-	1	(12)	-	-	7	7	(5)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	-	-	-	1	1		1	-	9	12	-	-	-	-	12
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 4,473**	**$ (112)**	**$ 31,290**	**$ 2,558**	**$ 2,382**	**$ 649**	**$ 12,666**	**$ 950**	**$ 7,249**	**$ 62,105**	**$ (1,429)**	**$ (1)**	**$ -**	**$ (1,430)**	**$ 60,675**
Outlays, Gross (Discretionary and Mandatory)	$ 23,160	$ 226	$ 31,992	$ 2,374	$ 1,994	$ 900	$ 5,617	$ 1,104	$ 7,098	$ 74,465	$ 34,181	$ 3,875	$ 77	$ 38,133	$ 112,598
Actual Offsetting Collections (Discretionary and Mandatory)	(13,275)	(3,907)	-	(1)	(1)	(330)	(1)	-	(108)	(17,623)	(44,469)	(2,472)	(65)	(47,006)	(64,629)
Outlays, Net (Total) (Discretionary and Mandatory)	**9,885**	**(3,681)**	**31,992**	**2,373**	**1,993**	**570**	**5,616**	**1,104**	**6,990**	**56,842**	**(10,288)**	**1,403**	**12**	**(8,873)**	**47,969**
															-
Distributed Offsetting Receipts	(1,078)	-	-	-	-	-	-	-	(290)	(1,368)	-	-	-	-	(1,368)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 8,807**	**$ (3,681)**	**$ 31,992**	**$ 2,373**	**$ 1,993**	**$ 570**	**$ 5,616**	**$ 1,104**	**$ 6,700**	**$ 55,474**	**$ (10,288)**	**$ 1,403**	**$ 12**	**$ (8,873)**	**$ 46,601**

The accompanying notes are an integral part of these statements