



# **Financial Information**





## **Analysis of Financial Condition and Results**

# ANALYSIS OF FINANCIAL CONDITION AND RESULTS

## This section covers:

*Analysis of Financial Position*

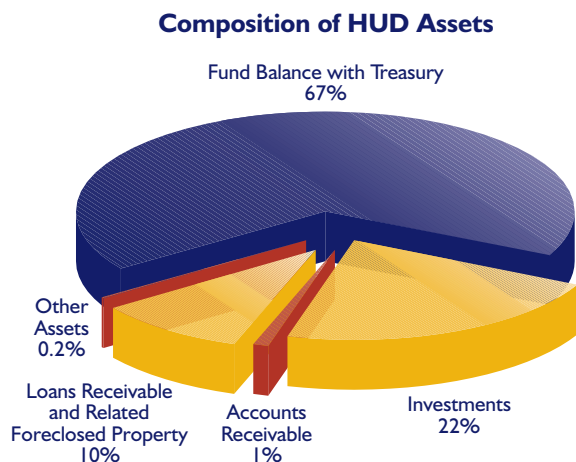
*Analysis of Off-Balance-Sheet Risk*

## Summarized Financial Data (Dollars in Millions)

	2001	2000*
Total Assets at End of FY	\$109,195	\$106,332
Total Liabilities at End of FY	\$27,641	\$31,833
Net Position at End of FY	\$81,554	\$74,499
FHA Insurance-In-Force	\$555,463	\$544,601
Ginnie Mae MBS Guarantees	\$604,300	\$603,500
Non-FHA/Ginnie Mae Commitments	\$87,499	\$90,762

## Analysis of Financial Position

### Composition of HUD Assets



HUD's fiscal 2001 Total Assets of \$109.2 billion are predominantly comprised of its fund balance with Treasury (\$73.3 billion) and investments (\$24.0 billion). The fund balance represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities.

Investments of \$24.0 billion primarily consist of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, in non-marketable market-based Treasury interest-bearing obligations.

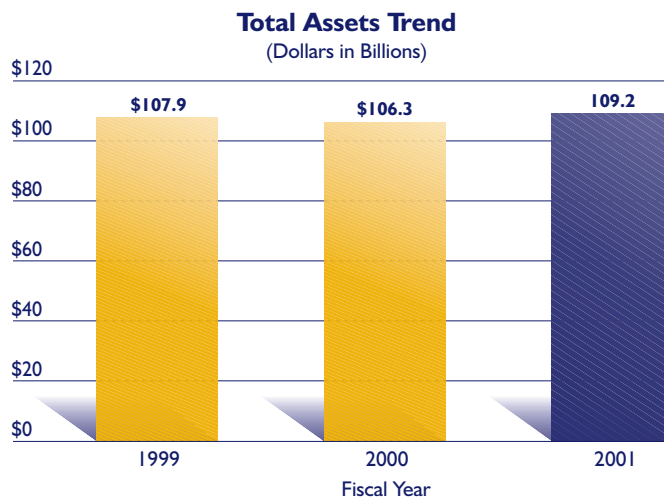
Accounts Receivable of \$772 million primarily consist of bond refunding due to refinancing of tax exempt 20-40 year bonds (originally issued in 1970s and early 1980s) related to Section 8 contracts and premiums receivable related to FHA insurance programs.

Loans Receivable and Related Foreclosed Property of \$10.9 billion are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program and FHA credit program receivables.

Other Assets of \$262 million include cash; other monetary assets; property, plant, and equipment; and other assets.

### Trends in Assets

Total Assets increased 2.7 percent (\$2.9 billion) from \$106.3 billion at September 30, 2000, to \$109.2 billion at September 30, 2001.



\*This analysis reflects adjustments made to HUD's total assets and liabilities in fiscal 2000 financial statements. The details of this adjustment are included in Footnote 7

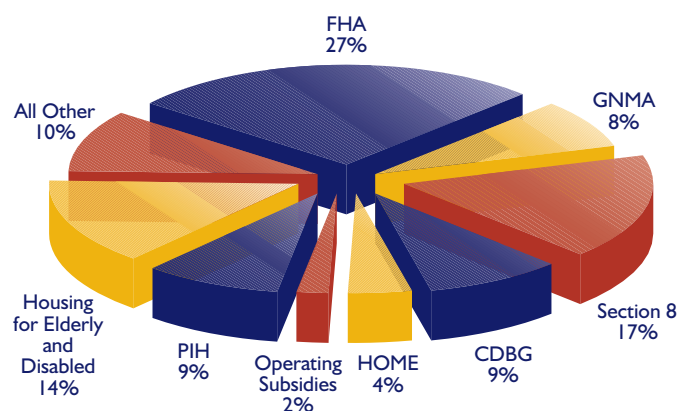
# ANALYSIS OF FINANCIAL CONDITION AND RESULTS

The net increase was due primarily to an increase of 3.8 percent (\$2.7 billion) in fund balance with Treasury from \$70.6 billion at September 30, 2000, to \$73.3 billion at September 30, 2001. The increase was offset slightly by a decrease of \$159 million in accounts receivable and \$169 million in loans receivable and related foreclosed property.

## Assets by Responsibility Segments

HUD's \$2.7 billion fund balance increase was due primarily to fund balance increases in the following programs: FHA (\$907 million), Ginnie Mae (\$425 million), Section 8 (\$290 million), and HOME (\$372 million). The only HUD program that did not experience a fund balance increase was PIH, whose balance decreased by \$187 million primarily attributable to increased program expenditures that consumed both new appropriations and portions of pre-existing funding during fiscal 2001.

Assets by Responsibility Segments

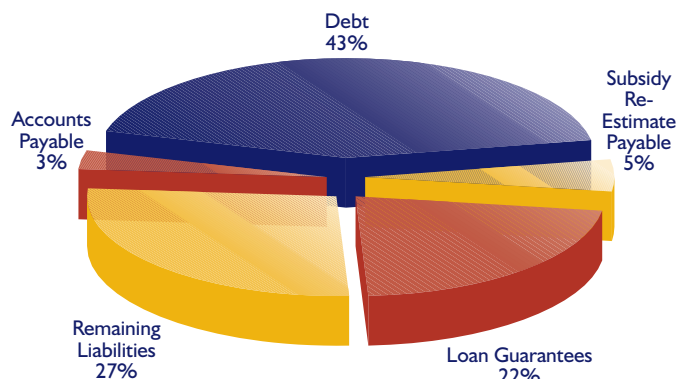


## Composition of HUD Liabilities

HUD's Total Liabilities of \$27.6 billion consists of \$11.7 billion in debt, \$6.1 billion in loan guarantee liabilities, \$1.4 billion in subsidy re-estimate payable, \$1.0 billion in accounts payable, and \$7.5 billion in other liabilities. HUD's debt in the chart above includes intra-governmental debt of \$9.2 billion and debt held by the public of \$2.5 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authority (PHA), Tribally Designated Housing Entity (TDHE), Federal Financing Bank, and debentures issued by FHA in

lieu of cash disbursements to pay claims. HUD's debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par.

Composition of HUD Liabilities



Accounts Payable consist primarily of pending grants payments and cash claims for single family properties and multifamily mortgage notes assigned.

Loan Liability Guarantees (LLG) consist of:

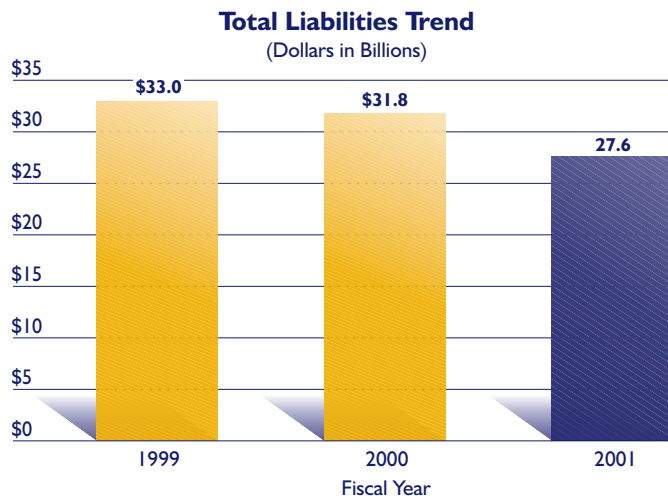
- Loan guarantees related to credit reform (committed on or after October 1, 1991) computed as the present value of anticipated cash outflows, such as claim payments for defaults, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes;
- Pre-Credit Reform loan guarantees are computed using the net realizable value method. The LLG for pre-Credit Reform Single Family mortgage insurance includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform Multifamily insured mortgages includes estimates for defaults, which are considered probable but have not been reported to FHA.

Remaining Liabilities of \$7.5 billion consist primarily of unearned premiums, insurance liabilities, loss reserves, and other liabilities.

# ANALYSIS OF FINANCIAL CONDITION AND RESULTS

## Trends in Liabilities

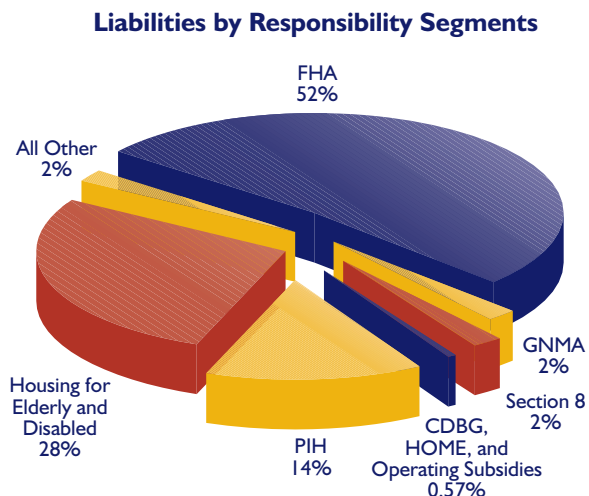
Total Liabilities decreased 13.2 percent (\$4.2 billion) from \$31.8 billion at September 30, 2000, to \$27.6 billion at September 30, 2001.



The decrease was due primarily to a \$3.5 billion decrease in debt and a \$1.5 billion decrease in loan guarantees liability.

## Liabilities by Responsibility Segments

The \$3.5 billion decrease in HUD debt (repayments exceed new borrowings) was primarily due to a \$2.6 billion decrease in FHA debt and a \$0.6 billion decrease in Housing for Elderly and Disabled program debt. The \$1.5 billion decrease in loan guarantees was due to an overall decrease in loan guarantees for FHA programs

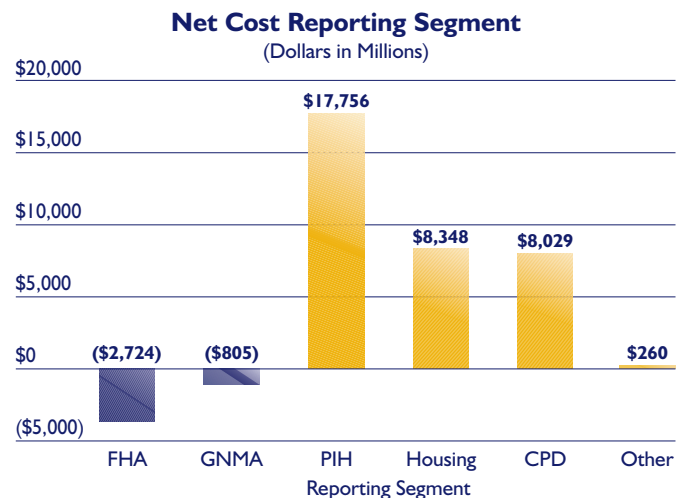


## Net Position

HUD's Net Cost of Operations, Financing Sources, and Change in Unexpended Appropriations combine to determine the Net Position at the end of the year. HUD's fiscal 2001 Net Position of \$81.6 billion represents a 9 percent (\$7 billion) increase over fiscal 2000. This increase is primarily attributable to a \$4.6 billion increase in cumulative results of operations (Financing Sources in excess of Net Cost of Operations) and a \$2.4 billion increase in Unexpended Appropriations.

## Net Cost of Operations

HUD's Net Cost of Operations consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (in exchange for HUD services provided).



HUD's total Net Cost for fiscal 2001 was \$30.8 billion. Of this amount, 54 percent (\$16.8 billion) was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development (CPD), and Public and Indian Housing (PIH) programs). Total HUD Net Costs were offset predominantly by an FHA surplus of \$2.7 billion, attributable to FHA's downward re-estimate of the anticipated long-term costs of its insurance programs.

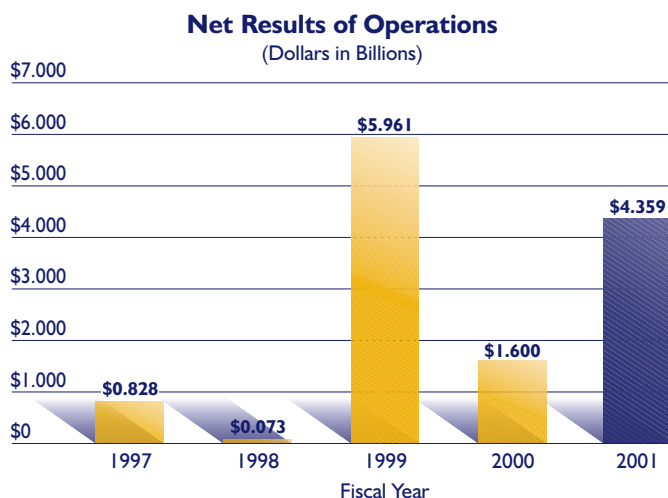
# ANALYSIS OF FINANCIAL CONDITION AND RESULTS

## Financing Sources

As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for fiscal 2001 totaled \$35.2 billion. This amount is comprised primarily of \$36.2 billion in Appropriations Used, offset by approximately \$1 billion in net transfers out. The transfers out consists of new FHA negative subsidy endorsements and credit subsidy downward re-estimates.

## Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 172 percent increase in Net Results of Operations to \$4.4 billion during fiscal 2001. The significant year-to-year fluctuation shown below is due primarily to the annual re-estimation of long-term credit program costs, which can be impacted by both program performance and economic forecasts.



## Unexpended Appropriations

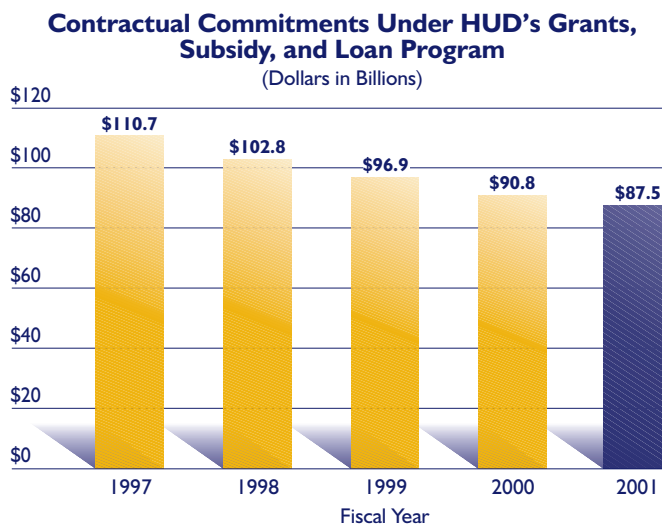
HUD's unexpended appropriations, which increased 4 percent (\$2.4 billion) to \$63.3 billion in fiscal 2001, represents the accumulation of appropriated funds not yet disbursed, and can change as the fund balance with Treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section.

## Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of mortgage-backed securities. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

## Contractual and Administrative Commitments

HUD's contractual commitments of \$87.5 billion in fiscal 2001 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of \$5.9 billion relate to specific projects for which funds will be provided upon execution of the related contract.



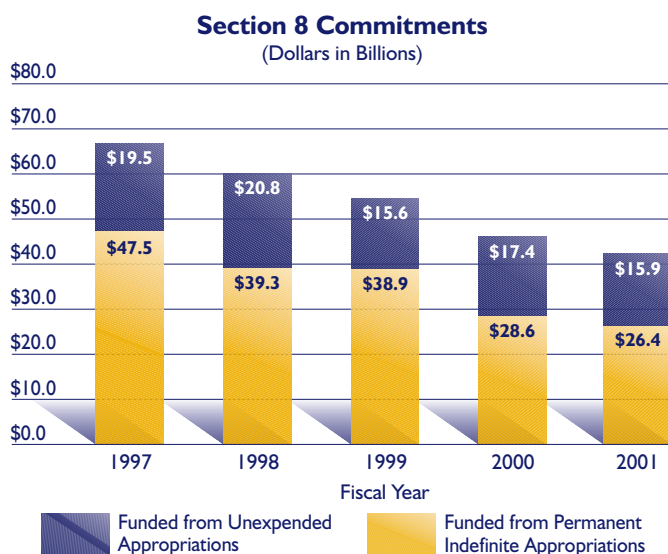
These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite budget authority, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund



# ANALYSIS OF FINANCIAL CONDITION AND RESULTS

the current year's portion of contracts entered into prior to fiscal year 1988. Since fiscal 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

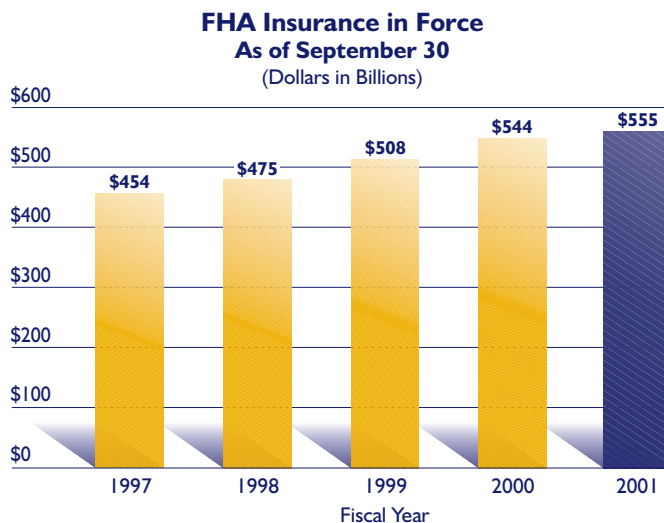
Total commitments (administrative and contractual) decreased \$3.9 billion or 4 percent during fiscal 2001. The majority of this change is attributable to a decrease of \$3.7 billion in Section 8 contractual commitments.



To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during fiscal 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

## FHA Insurance in Force

FHA's total insurance-in-force increased \$11 billion or 1.99 percent from \$544 billion in fiscal 2000 to \$555 billion in fiscal 2001. Most of this increase was due to a \$9.7 billion increase in the Mutual Mortgage Insurance (MMI) fund, which comprises 83 percent of FHA's total insurance-in-force.



## Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2001, was approximately \$604.3 billion. However, Ginnie Mae's potential loss is considerably less, because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

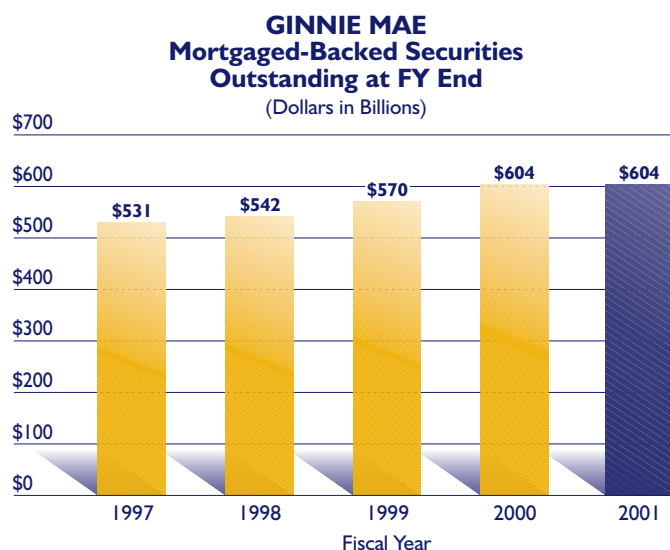


## ANALYSIS OF FINANCIAL CONDITION AND RESULTS

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2001, were \$42.8 billion.

Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2001, Ginnie Mae issued a total of \$67.4 billion in its multi-class securities program. The estimated outstanding balance at September 30, 2001, was \$165.6 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.







# **Independent Auditor's Report on the Financial Statements**

# INDEPENDENT AUDITOR'S REPORT

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

In accordance with the Chief Financial Officers (CFO) Act of 1990, we have audited the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2001 and 2000, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and financing for the fiscal years then ended. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its principal financial statements<sup>1</sup>.

## Opinion on the Financial Statements

In our opinion, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2001 and 2000 and the net costs of operations, changes in net position, status of budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with generally accepted accounting principles.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2001 related to the need to:
  - complete improvements to financial systems;
  - improve oversight and monitoring of housing subsidy determinations;
  - ensure that rental subsidies are based on correct tenant income;
  - improve Federal Housing Administration's (FHA) controls over budget execution and funds control; and
  - enhance FHA information technology systems to more effectively support FHA's business processes.
- Reportable conditions in internal controls in fiscal year 2001 related to the need to:
  - refine performance measures to effectively implement results management;
  - improve controls over project-based subsidy payments;
  - strengthen controls over HUD's computing environment;
  - improve personnel security for systems' access;
  - improve processes for reviewing obligation balances;
  - more effectively manage controls over the FHA systems' portfolio;
  - place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages;
  - sufficiently monitor FHA's single family property inventory; and
  - improve FHA's process for preparing timely estimates and properly reporting credit subsidy adjustments.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. In this *Fiscal Year 2001 Accountability Report*, HUD reports that it complied with Section 2 of the Federal Managers' Financial Integrity Act (FMFIA), with the exception of the material weaknesses and nonconformances specifically identified in that report. Section 2 and related guidance re-

<sup>1</sup> This report is a condensed version of a more detailed report issued separately on February 27, 2002 by HUD, OIG entitled, "Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2001 and 2000" (2002-FO-0003). The report is available at HUD, OIG's Internet site at <http://www.hud.gov/oig/oigindex.html>.

# REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

quire that: (1) an agency's internal accounting and administrative controls provide reasonable assurance that obligations and costs are in compliance with applicable laws; (2) funds, property and assets are adequately safeguarded; and (3) revenues and expenditures are properly and reliably accounted for and reported. HUD was unable to report compliance with Section 4, which requires that accounting systems conform to the accounting principles and standards mandated by the Comptroller General of the United States. For fiscal year 2000 and prior years, we disagreed with the Department's statement of overall assurance in the Department's *Accountability Reports*. HUD's compliance determinations did not fully consider the magnitude of the problems HUD acknowledges in its own FMFIA process. As permitted by the Reports Consolidation Act of 2000 (PL 106-531), HUD did not prepare a separate FMFIA report for fiscal year 2001 and is addressing those reporting requirements in this *Fiscal Year 2001 Performance and Accountability Report*. Given the magnitude of the problems that still remain, we continue to believe that an FMFIA statement of noncompliance would be appropriate for HUD.

Our findings also include the following instances of non-compliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, (2) applicable accounting standards, and (3) the U.S. Standard General Ledger (SGL) at the transaction level.
- HUD did not comply with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998. Specifically, HUD is not timely or properly enforcing the act's requirements for the timely expenditure and obligation by housing agencies (HA) of public housing modernization/capital funds. As discussed later, HUD disagreed with our conclusion when we first reported this matter, and as a result, we referred the matter to the Comptroller General of the United States.

## Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the fiscal years 2001 and 2000 principal financial statements taken as a whole. HUD has presented consolidating balance sheets, and related consolidating statements of net cost and changes in net position, and combining statements of budgetary resources and financing as supplementary information in this *Fiscal Year 2001 Performance and Accountability Report*. The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, status of budgetary resources, and reconciliation of net costs to budgetary obligations of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

# INDEPENDENT AUDITOR'S REPORT

## Required Supplementary Information

In this *Fiscal Year 2001 Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically information on investments in non-federal physical property and human capital. In addition, HUD presents a "Discussion and Analysis of Operations" and information on intra-governmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. We did not audit and do not express an opinion on this information, however we have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. In accordance with guidelines required by the January 7, 2000 technical amendments to OMB Bulletin 97-01, the Department, through confirmations, reconciled their intragovernmental transactions with their trading partners with immaterial differences.

Additional details on our findings regarding HUD's internal control environment, housing assistance program delivery, verification of subsidy payments, and system and accounting issues are summarized below and were provided in a separate report to HUD management. 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.

## Issues with HUD's Internal Control Environment

Most of the material weaknesses and reportable conditions discussed in this report relate to issues discussed in prior years' reports on HUD's financial statements. HUD has been taking actions to address the weaknesses and in some instances has made progress in correcting them. For the most part, progress has been at a slow pace because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Department-wide in scope and must be addressed for HUD to more effectively manage its programs. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts, but challenges remain. As discussed below, HUD's ability to address its problems will substantially improve if it completes the efforts to:

- deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements, and
- develop a process to identify and justify its staff resource requirements.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year 1991. To correct financial management deficiencies in a Department-wide



# REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns.

In addition to improving its financial systems, HUD will need to more effectively manage its limited staff resources. Many of the weaknesses discussed in this report, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans.

In our separate report, we elaborate on the need for improved systems and resource management. In addition, we discuss the need for HUD to improve performance measures for its programs.

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## **Housing Assistance Program Delivery**

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and HAs. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$21 billion in fiscal year 2001 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 programs, the HAs determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD that these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring along with the absence of an on-going quality control program that would periodically assess the accuracy of intermediaries' rent determinations.

# INDEPENDENT AUDITOR'S REPORT

A recently completed contracted study of rent determinations under HUD's major housing assistance programs estimates that errors made by project owners and HAs resulted in substantial subsidy overpayments and underpayments. The purpose of the study was to provide national estimates of the extent, severity, costs, and sources of errors occurring in the certification and recertification procedures used by HAs and owners in calculating tenant rents. The study projected that annually, about \$1.7 billion in subsidies was overpaid on behalf of households paying too little rent and about \$0.6 billion in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements.

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## Verification of Subsidy Payments

As discussed above, HUD provides rent and operating subsidies through a variety of programs, including public housing and Section 8. The admission of a household to these rental assistance programs and the size of the subsidy it receives depend directly on the household's self-reported income. HUD matched computer income with its assisted housing universe and estimated that housing subsidy overpayments from tenants misreporting their income totaled \$978 million during calendar year 2000. Tenants often do not report income or under report income which, if not detected, causes HUD to make excessive subsidy payments. Tenant income is a major factor affecting eligibility for, and the amount of, housing assistance a family receives, and indirectly, the amount of subsidy HUD pays. Generally, HUD's subsidy payment makes up the difference between 30 percent of a household's adjusted income and the housing unit's actual rent or, under the Section 8 voucher program, a payment standard.

In fiscal year 2001, HUD initiated the Rental Housing Integrity Improvement Project, which calls for systems capability that will identify relevant tenant and program data for rent calculations, and requires the data to be submitted by HAs. HUD would use the data to identify possible HAs certification or re-certification processing deficiencies. This increased capability and information could also make the large-scale computer match a viable option for identifying excess rental subsidy or tenant overpayments.

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## System and Accounting Issues

In our earlier discussion of concerns we have with HUD's internal control environment, we stressed the need for HUD to complete on-going efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve:

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- controls over the computing environment; and
- administration of personnel security operations.

We also noted the need for HUD to improve its processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. Major deficiencies include:

- Specific statutory or grant requirements for outstanding obligations are not being enforced.
- A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended Section 8 project-based obligations.

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

A separate audit was performed of FHA's fiscal year 2001 and 2000 financial statements by the independent certified public accounting firm of KPMG LLP. Their report on FHA's financial statements, dated January 31, 2002,<sup>2</sup> includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and four reportable conditions. The FHA material weaknesses are as follows:

- *HUD/FHA's ADP system environment must be enhanced to more effectively support FHA's business processes.* HUD and FHA are conducting day-to-day business with legacy based systems. Several systems directly impact FHA's financial activity and necessitate financial transactions to be processed through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting financial activities.
- *Controls over budget execution and funds control must be improved.* FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

KPMG LLP also identified four reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio, (2) continue to place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages, (3) sufficiently moni-

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<sup>2</sup> KPMG LLP's report on FHA entitled, "Federal Housing Administration, Audit of Fiscal Years 2001 and 2000 Financial Statements" (2002-FO-0002, dated February 22, 2002) was incorporated in our report.

# INDEPENDENT AUDITOR'S REPORT

tor its single family property inventory, and (4) continue to improve its process for preparing timely estimates and properly reporting credit subsidy adjustments.

We consider the above issues to be material weaknesses and reportable conditions at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2001 and 2000 financial statements.

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

A separate audit was performed of the Government National Mortgage Association's (Ginnie Mae) financial statements for fiscal years 2001 and 2000 by KPMG LLP. Their report on Ginnie Mae's financial statements, dated January 14, 2002,<sup>3</sup> includes an unqualified opinion on Ginnie Mae's financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

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## HUD Has Made Progress in Addressing Management Deficiencies, but More Progress is Needed

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2001 update, GAO redefined and reduced the number of programs deemed to be high-risk. Specifically, because of the actions taken by HUD in response to GAO's recommendations to improve its management controls over its Community Planning and Development programs, GAO concluded that this program area is no longer high risk. However, GAO concluded that significant weaknesses still persist in two of HUD's major program areas: (1) single-family mortgage insurance and (2) rental housing assistance. In addition, HUD needs to continue addressing management challenges in two other areas: (1) information and financial management systems and (2) human capital.

With respect to fiscal years 2001 and 2000, we were able to conclude that HUD's consolidated financial statements were reliable in all material respects. However, because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

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<sup>3</sup> KPMG LLP's report on Ginnie Mae was incorporated in our report entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2001 and 2000" (2002-FO-0001, dated February 20, 2002).

# REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

## Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements based on our audit. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. We conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws and regulations 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 and regulations were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, reportable conditions or noncompliance with laws and regulations. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws and regulations.

## Agency Comments and Our Evaluation

On January 31, 2002, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated February 14, 2002. Remaining sections of the draft report were provided on February 20, 2002. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum and attachments. The Department's response was considered in preparing the final version of this report.

  
James A. Heist  
Assistant Inspector General  
for Audit

February 25, 2002







# **Financial Statements**

# INTRODUCTION

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Housing and Urban Development (HUD), pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515 (b)). While the financial statements have been prepared from HUD's books and records in accordance with 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 principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet;
- Consolidating Statement of Net Cost;
- Consolidating Statement of Changes in Net Position;
- Combined Statement of Budgetary Resources; and
- Combined Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. All of HUD's budget authority is covered by these financial statements.

# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Consolidated Balance Sheet As of September 30, 2001 and 2000

(Dollars in Millions)

	2001	2000
<b>ASSETS</b>		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$73,328	\$70,621
Investments (Note 4)	23,972	23,572
Accounts Receivable (Net) Note 6)	9	20
Other Assets (Note 7)	49	49
Total Intragovernmental Assets	\$97,358	\$94,262
Accounts Receivable, Net (Note 6)	763	911
Credit Program Receivables (Note 8)	10,861	11,030
Other Assets (Note 7)	213	129
<b>TOTAL ASSETS</b>	<b>\$109,195</b>	<b>\$106,332</b>
<b>LIABILITIES</b>		
Intragovernmental Liabilities		
Accounts Payable		\$7
Debt (Note 10)	\$9,235	12,421
Subsidy Re-Estimate Payable	1,396	517
Other Intragovernmental Liabilities (Note 11)	4,971	5,071
Total Intragovernmental Liabilities	\$15,602	\$18,016
Accounts Payable	954	901
Liabilities for Loan Guarantees (Note 8)	6,091	7,554
Debt (Note 10)	2,496	2,814
Unearned Premiums	555	682
Debentures Issued to Claimants (Note 10)	221	218
Loss Reserves (Note 12)	535	533
Insurance Liabilities	354	174
Other Governmental Liabilities (Note 11)	833	941
<b>TOTAL LIABILITIES</b>	<b>\$27,641</b>	<b>\$31,833</b>
<b>NET POSITION</b>		
Unexpended Appropriations (Note 13)	\$63,305	\$60,870
Cumulative Results of Operations	18,249	13,629
<b>TOTAL NET POSITION</b>	<b>\$81,554</b>	<b>\$74,499</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$109,195</b>	<b>\$106,332</b>

The accompanying notes are an integral part of these statements

# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2001 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
<b>COSTS:</b>							
<b>Unsubsidized Program</b>							
Intragovernmental With the Public	\$431 (576)						\$431 (576)
Total Expenses	(\$145)	\$0	\$0	\$0	\$0	\$0	(\$145)
Less: Earned Revenues	(2,383)						(2,383)
Net Program Costs	(\$2,528)						(\$2,528)
<b>Subsidized Program</b>							
Intragovernmental With the Public	\$95 580						\$95 580
Total Expenses	\$675	\$0	\$0	\$0	\$0	\$0	\$675
Less: Earned Revenues	(871)						(871)
Net Program Costs	(\$196)						(\$196)
<b>Government National Mortgage Association</b>							
With the Public		73					73
Total Expenses	\$0	\$73	\$0	\$0	\$0	\$0	\$73
Less: Earned Revenues		(878)					(878)
Net Program Costs		(\$805)					(\$805)
<b>Section 8</b>							
Intragovernmental With the Public	0	0	\$7 9,543	(\$126) 7,209	11	0	(\$119) 16,763
Total Expenses	\$0	\$0	\$9,550	\$7,083	\$11	\$0	\$16,644
Less: Earned Revenues			0	150	0		150
Net Program Costs			\$9,550	\$7,233	\$11		\$16,794
<b>Low Rent Public Housing Loans and Grants</b>							
Intragovernmental With the Public	0	0	\$204 3,851	0	0	0	\$204 3,851
Total Expenses	\$0	\$0	\$4,055	\$0	\$0	\$0	\$4,055
Less: Earned Revenues							
Net Program Costs			\$4,055				\$4,055
<b>Operating Subsidies</b>							
Intragovernmental With the Public			\$35 3,112				\$35 3,112
Total Expenses	\$0	\$0	\$3,147	\$0	\$0	\$0	\$3,147
Less: Earned Revenues			0				0
Net Program Costs			\$3,147				\$3,147
<b>Housing for the Elderly and Disabled</b>							
Intragovernmental With the Public				\$314 784			\$314 784
Total Expenses	\$0	\$0	\$0	\$1,098	\$0	\$0	\$1,098
Less: Earned Revenues				(665)			(665)
Net Program Costs				\$433			\$433
<b>Community Development Block Grants</b>							
Intragovernmental With the Public	0	0	0	0	32 4,948	0	32 4,948
Total Expenses	\$0	\$0	\$0	\$0	\$4,980	\$0	\$4,980
Less: Earned Revenues					0		0
Net Program Costs					\$4,980		\$4,980
<b>HOME</b>							
Intragovernmental With the Public					\$11 1,425		\$11 1,425
Total Expenses	\$0	\$0	\$0	\$0	\$1,436	\$0	\$1,436
Less: Earned Revenues					0		0
Net Program Costs					\$1,436		\$1,436
<b>Other</b>							
Intragovernmental With the Public			\$51 800	\$29 548	\$45 1,477	\$44 217	\$169 3,042
Total Expenses	\$0	\$0	\$851	\$577	\$1,522	\$261	\$3,211
Less: Earned Revenues			(1)	(36)	(7)	(1)	(45)
Net Program Costs			\$850	\$541	\$1,515	\$260	\$3,166
<b>Costs Not Assigned to Programs</b>							
	0	0	\$154	\$141	\$87	0	\$382
<b>NET COST OF OPERATIONS</b>	<b>(\$2,724)</b>	<b>(\$805)</b>	<b>\$17,756</b>	<b>\$8,348</b>	<b>\$8,029</b>	<b>\$260</b>	<b>\$30,864</b>

The accompanying notes are an integral part of these statements

# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
<b>COSTS:</b>							
<b>Unsubsidized Program</b>							
Intragovernmental	\$477						\$477
With the Public	2,532						2,532
Total Expenses	\$3,009						\$3,009
Less: Earned Revenues	(2,886)						(2,886)
Net Program Costs	\$123						\$123
<b>Subsidized Program</b>							
Intragovernmental	\$111						\$111
With the Public	391						391
Total Expenses	\$502						\$502
Less: Earned Revenues	(579)						(579)
Net Program Costs	(\$77)						(\$77)
<b>Government National Mortgage Association</b>							
With the Public		\$69					\$69
Total Expenses		\$69					\$69
Less: Earned Revenues		(832)					(832)
Net Program Costs		(\$763)					(\$763)
<b>Section 8</b>							
Expenses With the Public/Net Program Costs			\$8,823	\$7,136	\$31		\$15,990
<b>Low Rent Public Housing Loans and Grants</b>							
Intragovernmental			\$93				\$93
With the Public			4,078				4,078
Total Expenses			\$4,171				\$4,171
Less: Earned Revenues			(3)				(3)
Net Program Costs			\$4,168				\$4,168
<b>Operating Subsidies</b>							
Expenses With the Public/Net Program Costs			\$2,889				\$2,889
<b>Housing for the Elderly and Disabled</b>							
Intragovernmental				\$345			\$345
With the Public				733			733
Total Expenses				\$1,078			\$1,078
Less: Earned Revenues				(674)			(674)
Net Program Costs				\$404			\$404
<b>Community Development Block Grants:</b>							
Expenses With the Public/Net Program Costs					\$5,012		\$5,012
<b>HOME</b>							
Intragovernmental					\$3		\$3
With the Public					1,496		1,496
Total Expenses/Net Program Costs					\$1,499		\$1,499
<b>Other</b>							
Intragovernmental			\$2	\$21	\$7	\$273	\$303
With the Public			711	711	1,286	6	2,714
Total Expenses			\$713	\$732	\$1,293	\$279	\$3,017
Less: Earned Revenues				(47)	(8)	93	38
Net Program Costs			\$713	\$685	\$1,285	\$372	\$3,055
<b>Costs Not Assigned to Programs</b>							
			\$152	\$108	\$84		\$344
<b>NET COST OF OPERATIONS</b>	\$46	(\$763)	\$16,745	\$8,333	\$7,911	\$372	\$32,644

The accompanying notes are an integral part of these statements

# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Consolidating Statement of Changes in Net Position For the Year Ended September 2001 and 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
2001							
<b>Net Cost of Operations</b>	(\$2,724)	(\$805)	\$17,756	\$8,348	\$8,029	\$260	\$30,864
<b>Financing Sources (other than exchange revenue)</b>							
Appropriations Used	(1,370)		(17,764)	(8,670)	(7,642)	(786)	(36,232)
Imputed Financing	(14)					(56)	(70)
Transfers In/Out	1,284					(204)	1,080
Other Financing Sources	7		(338)	(225)	(215)	771	
<b>Net Results of Operations</b>	(2,817)	(805)	(346)	(547)	172	(15)	(4,358)
Prior Period Adjustments	(\$261)						(\$261)
Net Change In Cumulative Results of Operations	(3,078)	(805)	(346)	(547)	172	(15)	(4,619)
Change in Unexpended Appropriations	(\$978)		\$9,606	(\$11,120)	\$85	(\$29)	(\$2,436)
<b>Change in Net Position</b>	(4,056)	(805)	9,260	(11,667)	257	(44)	(7,055)
<b>Net Position-Beginning of Period</b>	(\$11,058)	(\$7,319)	(\$4,320)	(\$23,280)	(\$27,759)	(\$763)	(\$74,499)
<b>Net Position-End of Period</b>	(\$15,114)	(\$8,124)	\$4,940	(\$34,947)	(\$27,502)	(\$807)	(\$81,554)
2000							
<b>Net Cost of Operations</b>	\$46	(\$763)	\$16,745	\$8,333	\$7,911	\$372	\$32,644
<b>Financing Sources (other than exchange revenue)</b>							
Appropriations Used	(1,124)		(16,748)	(8,720)	(7,848)	(5)	(34,445)
Imputed Financing	(11)					(38)	(49)
Transfers (In) / Out	436			73		(307)	202
Other Financing Sources				35			35
<b>Net Results of Operations</b>	(\$653)	(\$763)	(\$3)	(\$279)	\$63	\$22	(\$1,613)
Prior Period Adjustments	(8)				(13)		(21)
Net Change In Cumulative Results of Operations	(\$661)	(\$763)	(\$3)	(\$279)	\$50	\$22	(\$1,634)
Change in Unexpended Appropriations	(837)		12,958	(11,388)	1,431	(95)	2,069
<b>Change in Net Position</b>	(\$1,498)	(\$763)	\$12,955	(\$11,667)	\$1,481	(\$73)	\$435
<b>Net Position-Beginning of Period</b>	(9,560)	(6,556)	(17,275)	(11,613)	(29,240)	(690)	(74,934)
<b>Net Position-End of Period</b>	(\$11,058)	(\$7,319)	(\$4,320)	(\$23,280)	(\$27,759)	(\$763)	(\$74,499)

The accompanying notes are an integral part of these statements



# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Combined Statement of Budgetary Resources For the Year Ended September 2001 and 2000 (Dollars in Millions)

	2001	2000
<b>BUDGETARY RESOURCES:</b>		
Budget Authority	\$47,594	\$27,842
Net Transfers, Current Year Authority	6	130
Unobligated Balance – Beginning of Year	44,195	44,783
Net Transfers Prior Year Balance, Actual		(124)
Spending Authority from Offsetting Collections	20,669	16,283
Adjustments		
Recoveries of Prior Year Obligation	3,279	2,468
Permanently Not Available		
Cancelled-Expired and No Year Accts	(56)	(54)
Enacted Recissions Prior Year Balance	(2,534)	(2,700)
Capital Trans and Debt Redemption	(5,763)	(2,940)
Other Authority Withdrawn	(6,863)	(165)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$100,527</b>	<b>\$85,523</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>		
Obligations Incurred	\$56,349	\$41,328
Unobligated Balances Available	12,628	14,436
Unobligated Balances Not Yet Available	31,550	29,759
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$100,527</b>	<b>\$85,523</b>
<b>OUTLAYS:</b>		
Obligations Incurred	\$56,349	\$41,328
Less: Spending Authority From Offsetting		
Collections and Adjustments	20,669	16,283
Actual Recoveries-Prior Year Obligations	3,279	2,468
Obligated Balance, Net Beginning of Period	97,713	105,196
Obligated Balance Transferred,		
Net Less: Obligated Balance, Net – End of Period	93,881	97,713
<b>TOTAL OUTLAYS</b>	<b>\$36,233</b>	<b>\$30,060</b>

The accompanying notes are an integral part of these statements

# FINANCIAL STATEMENTS

## Department of Housing and Urban Development Combined Statement of Financing For the Year Ended September 2001 and 2000 (Dollars in Millions)

	2001	2000
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES</b>		
Obligations Incurred	\$56,349	\$41,328
Spending Authority from Offsetting		
Collections and Adjustments	(20,669)	(16,213)
Recoveries-Prior Year Obligations	(3,279)	(2,468)
Financing Imputed for Cost Subsidies	70	49
Transfers In (Out)		
Exchange Revenue Not in the Budget	(66)	64
Non-Exchange Revenue Not in Budget	140	8
Exchange Revenue in the Budget	6	
<b>TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES</b>	<b>\$32,551</b>	<b>\$22,768</b>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>		
Change in Amount of Goods, Services and Benefits		
Ordered, but not yet Received or Provided	\$3,877	\$7,309
Costs Capitalized on the Balance Sheet	5,758	2,155
Financing Sources that Fund Costs of Prior Periods	(8,363)	(11)
Other	(353)	(44)
<b>TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>	<b>\$919</b>	<b>\$9,409</b>
<b>COSTS THAT DO NOT REQUIRE RESOURCES</b>		
Depreciation and Amortization	\$4	\$6
Bad Debts Related to Uncollectible		
Non-Credit Reform Receivables	(466)	70
Revaluation of assets & Liabilities	(831)	(1,127)
Loss of Disposition of Assets	748	728
Other	(4,045)	(3,171)
<b>TOTAL COSTS NOT REQUIRING RESOURCES</b>	<b>(\$4,590)</b>	<b>(\$3,494)</b>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<b>\$1,984</b>	<b>\$3,961</b>
<b>NET COST OF OPERATIONS</b>	<b>\$30,864</b>	<b>\$32,644</b>

The accompanying notes are an integral part of these statements

## Notes to Financial Statements September 30, 2001 and 2000

### Note I – Entity and Mission

The U.S. Department of Housing and Urban Development (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)** was created as a Government corporation within HUD and administers active mortgage insurance programs that 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 that finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association (Ginnie Mae)** was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), 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.

**Operating Subsidies** are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

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

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

# FINANCIAL STATEMENTS

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

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 Americans.

**Other Programs** not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 9.9 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for fiscal 2001 and 9.6 percent of HUD's consolidated assets and 8.4 percent of HUD's consolidated revenues and financing sources for fiscal 2000.

## Note 2 – Summary of Significant Accounting Policies

### A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

### B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

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

### C. Operating Revenue and Financing Sources

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

### **Appropriations for Grant and Subsidy Programs**

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

### **FHA Unearned Premiums**

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

### **Ginnie Mae Fees**

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Fees received for commitments to subsequently guarantee mortgage-backed securities and commitments to fund mortgage loans are recognized when commitments are granted.

### **D. Appropriations and Moneys Received from Other HUD Programs**

The General Insurance Fund (GI) and Special Risk Insurance Fund (SRI) were not designed to be self-sustaining. As a result, the National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of these Funds. For post-1991 loan guarantees, appropriations to the GI and SRI Funds are made at the beginning of each fiscal year to cover estimated losses on loans to be insured during that year. For pre-1992 loan guarantees, the FHA has permanent indefinite appropriations authority to finance the cash requirements of operations.

HUD records moneys received from other HUD programs, such as interest subsidies and rent supplements, as revenue for the liquidating accounts when services are rendered. Moneys received for the financing accounts are recorded as an addition to the liability for loan guarantees when collected.

# FINANCIAL STATEMENTS

## E. Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. The following shows HUD's fund balances with the U.S. Treasury as of September 30, 2001 and 2000 were as follows (dollars in millions):

Description	2001	2000
Revolving Funds	\$11,870	\$10,635
Appropriated Funds	61,454	59,909
Trust Funds	4	77
<b>TOTAL – FUND BALANCE</b>	<b>\$73,328</b>	<b>\$70,621</b>

An immaterial difference exists between HUD's recorded Fund Balance with the US Treasury and the US Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year. During fiscal 2001 an immaterial amount of older items were written off.

## F. Investments

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

HUD's investment decisions are limited by 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, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after fiscal 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-fiscal 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to 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 the majority of 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. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain “temporary hardship” conditions beyond the control of the mortgagor, and when, in management’s judgment, it is likely that the mortgage could be brought current in the future. During fiscal 2001, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

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 Federal Credit Reform Act of 1990 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 mortgage or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

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

### **H. Liability for Loan Guarantees**

The liability for loan guarantees (LLG) related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

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The pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults that are considered probable but have not been reported to FHA.

## **I. Full Cost Reporting**

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

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

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was \$85 million as of September 30, 2001 and \$75 million as of September 30, 2000. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

## **K. Loss Reserves**

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for actual or probable defaults of FHA-insured mortgage loans. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current economic factors.

## **L. Retirement Plans**

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

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under CSRS, employees can contribute up to 6 percent 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, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2001 and 2000 was \$66 million and \$68 million, respectively.

### **M. Federal Employee and Veteran's Benefit**

The Department's Federal Employee and Veteran's benefit expenses totaled approximately \$122 million for fiscal 2001; this amount includes \$32 million to be funded by the OPM. Federal Employee and Veteran's benefit expenses totaled approximately \$102 million for fiscal 2000; this amount includes \$16 million to be funded by the OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

## **Note 3 – Commitments Under HUD's Grant, Subsidy, and Loan Programs**

### **A. Contractual Commitments**

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into 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.

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

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

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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 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.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2001 (dollars in millions):

Programs	Commitments Funded Through		Total Contracted Commitments
	Unexpended Appropriations	Permanent Indefinite Appropriations	
Section 8 Rental Assistance	\$15,975	\$26,412	\$42,387
Community Development Block Grants	9,048	—	9,048
HOME Partnership Investment Program	4,370	—	4,370
Operating Subsidies	1,652	—	1,652
Low Rent Public Housing Grants and Loans	9,165	—	9,165
Housing for Elderly and Disabled	4,056	—	4,056
Section 235/236	138	9,517	9,655
All Other	7,103	64	7,167
<b>TOTAL</b>	<b>\$51,507</b>	<b>\$35,993</b>	<b>\$87,500</b>

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2001, \$32.7 billion relates to project-based commitments, and \$9.7 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2000 (dollars in millions):

Programs	Commitments Funded Through		Total Contracted Commitments
	Unexpended Appropriations	Permanent Indefinite Appropriations	
Section 8 Rental Assistance	\$17,422	\$28,622	\$46,044
Community Development Block Grants	9,017	—	9,017
HOME Partnership Investment Program	4,092	—	4,092
Operating Subsidies	1,590	—	1,590
Low Rent Public Housing Grants and Loans	8,580	29	8,609
Housing for Elderly and Disabled	3,981	—	3,981
Section 235/236	78	10,620	10,698
All Other	6,650	81	6,731
<b>TOTAL</b>	<b>\$51,410</b>	<b>\$39,352</b>	<b>\$90,762</b>

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Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2000, \$36.3 billion relates to project-based commitments, and \$9.7 billion relates to tenant-based commitments. 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 above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

### B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments that 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 shows HUD’s administrative commitments as of September 30, 2001 (dollars in millions):

Programs	Administrative Commitments Funded Through		Total Reservations
	Unexpended Appropriations	Permanent Indefinite Appropriations	
Section 8 Rental Assistance Project-Based	\$152	—	\$152
Section 8 Rental Assistance Tenant-Based	4	—	4
Community Development Block Grants	771	—	771
HOME Partnership Investment Program	254	—	254
Low Rent Public Housing Grants and Loans	819	—	819
Housing for Elderly and Disabled	2,586	\$73	2,659
All Other	1,185	15	1,200
<b>TOTAL</b>	<b>\$5,771</b>	<b>\$88</b>	<b>\$5,859</b>

The following shows HUD’s administrative commitments as of September 30, 2000 (dollars in millions):

Programs	Administrative Commitments Funded Through		Total Reservations
	Unexpended Appropriations	Permanent Indefinite Appropriations	
Section 8 Rental Assistance Project-Based	—	\$505	\$505
Section 8 Rental Assistance Tenant-Based	—	8	8
Community Development Block Grants	\$630	—	630
HOME Partnership Investment Program I 48	—	148	148
Low Rent Public Housing Grants and Loans	1,568	—	1,568
Housing for Elderly and Disabled	2,385	73	2,458
All Other	1,205	4	1,209
<b>TOTAL</b>	<b>\$5,936</b>	<b>\$590</b>	<b>\$6,526</b>

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## Note 4 – Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal 2001 ranged from 2.49 percent to 13.9 percent. During fiscal 2000 interest rates ranged from 5.25 percent to 7.87 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2001 and 2000, were as follows (dollars in millions):

Fiscal Year	Cost	Par Value	Premium (Discount)	Un-amortized Accrued Interest	Net Investments	Unrealized Gain	Market Value
FY 2001	\$23,517	\$23,857	\$(195)	\$310	\$23,972	\$1,641	\$25,613
FY 2000	\$23,109	\$23,450	\$(227)	\$349	\$23,572	\$419	\$23,991

## Note 5 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2001 and 2000 (dollars in millions):

Description	2001			2000		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury	\$72,946	\$382	\$73,328	\$70,302	\$319	\$70,621
Investments	23,972	–	23,972	23,572	–	23,572
Accounts Receivable	9	–	9	20	–	20
Other Assets	42	7	49	41	8	49
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$96,969</b>	<b>\$389</b>	<b>\$97,358</b>	<b>\$93,935</b>	<b>\$327</b>	<b>\$94,262</b>
Accounts Receivable	519	244	763	604	307	911
Loan Receivables and						
Related Foreclosed Property	10,854	7	10,861	11,030	–	11,030
Other Assets	103	110	213	55	74	129
<b>TOTAL ASSETS</b>	<b>\$108,445</b>	<b>\$750</b>	<b>\$109,195</b>	<b>\$105,624</b>	<b>\$708</b>	<b>\$106,332</b>

## Note 6 – Accounts Receivable

### Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2001 and 2000, this amount totaled \$150 million and \$359 million, respectively.

## Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2001 and 2000, HUD was due \$240 million and \$307 million, respectively.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2001 and 2000, as follows (dollars in millions):

Description	2001	2000
Section 8 Settlements	\$150	\$359
Bond Refundings	240	307
Other Receivables	382	265
Total	\$772	\$931

## Note 7 – Other Assets

The following shows HUD's Other Assets as of September 30, 2001 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	\$42	–	–	–	\$42
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	7	–	–	–	7
Other Assets	–	–	–	–	–
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$49</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>\$49</b>
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Property and Equipment	–	–	–	\$65	65
Mortgagor Reserves for Replacement – Cash	110	–	–	–	110
Other Assets	15	\$22	–	1	38
<b>TOTAL</b>	<b>\$174</b>	<b>\$22</b>	<b>–</b>	<b>\$66</b>	<b>\$262</b>



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The following shows HUD's Other Assets as of September 30, 2000 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	\$41	—	—	—	\$41
Section 312 Rehabilitation Loan Program Receivables	—	—	—	—	—
Mortgagor Reserves for Replacement – Investment	8	—	—	—	8
Other Assets	—	—	—	—	—
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$49</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>\$49</b>
Receivables Related to Asset Sales	—	—	—	—	—
Receivables Related to Credit Program Assets	—	—	—	—	—
Equity Interest in Multifamily Mortgage Trust 1996	—	—	—	—	—
Premiums Receivable	—	—	—	—	—
Property and Equipment	—	—	—	\$27	27
Mortgagor Reserves for Replacement – Cash	74	—	—	—	74
Other Assets	16	\$9	—	3	28
<b>TOTAL</b>	<b>\$139</b>	<b>\$9</b>	<b>—</b>	<b>\$30</b>	<b>\$178</b>

## Receivable from Unapplied Disbursements

The initial allocations of the confirmed Fund Balances with Treasury among the U.S. Treasury accounts that make up FHA are based on estimates. At the end of the fiscal year, these estimates resulted in the establishment of the receivables and payables that reflect the differences between the Fund Balance with Treasury and the estimates recorded in FHA's general ledger.

Before fiscal 2001, the receivable and payables were classified as receivable from and payable to the U.S. Treasury. In fiscal 2001, these receivables and payables are classified as receivables and payables between different FHA accounts to more appropriately reflect the nature of the differences. As a result, in the process of preparing the FHA consolidated statements, these intra-FHA receivables and payables are eliminated. The remaining receivable and/or payable is classified to a receivable or payable with other U.S. government agencies. Accordingly, in fiscal 2000, the offsetting receivables and payables in the amount of \$280 million have been eliminated to conform to the fiscal 2001 presentation.

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

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

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans are governed by the Federal Credit Reform Act of 1990, and are recorded as the net present value of the associated cash flows



## NOTES – SEPTEMBER 30, 2001 and 2000

(i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2001 and 2000 were as follows:

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

1. FHA
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
  - a) Revolving Fund
  - b) Flexible Subsidy
  - c) CDBG, Section 108(b)
  - d) Public and Indian Loan Guarantee
  - e) Loan Guarantee Recovery Fund
  - f) Public and Indian Housing Loan Fund

### B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

Direct Loan Programs	2001				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$42	–	\$(23)	–	\$19
Housing for Elderly and Disabled	7,804	\$98	(20)	\$9	7,891
Low Rent Public Housing Loans	3	2	–	–	5
All Other	807	54	(583)	2	280
<b>TOTAL</b>	<b>\$8,656</b>	<b>\$154</b>	<b>\$(626)</b>	<b>\$11</b>	<b>\$8,195</b>

Direct Loan Programs	2000				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$56	\$2	\$(32)	–	\$26
Housing for Elderly and Disabled	7,923	83	(23)	\$8	7,991
Low Rent Public Housing Loans	10	3	1	–	14
All Other	927	27	(652)	2	304
<b>TOTAL</b>	<b>\$8,916</b>	<b>\$115</b>	<b>\$(706)</b>	<b>\$10</b>	<b>\$8,335</b>

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## C. Direct Loans Obligated After FY 1991 (dollars in millions):

Direct Loan Programs	2001				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$1	\$ –	\$(2)	\$ –	\$(1)

2000

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$1	\$ –	\$(2)	\$ –	\$(1)

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

Direct Loan Programs	2001				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	\$2,057	\$91	\$(1,292)	\$259	\$1,115

2000

Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	\$2,305	\$221	\$(1,914)	\$370	\$982

## E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

Direct Loan Programs	2001				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	\$793	\$81	\$(1,367)	\$2,045	\$1,552

## NOTES – SEPTEMBER 30, 2001 and 2000

	2000				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	\$647	\$7	\$(1,218)	\$2,278	\$1,714
				<b>2001</b>	<b>2000</b>
<b>Total Credit Program Receivables and Related Foreclosed Property, Net</b>				<b>\$10,861</b>	<b>\$11,030</b>

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

	2001	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$601,715	\$555,463
All Other	2,049	2,049
<b>TOTAL</b>	<b>\$603,764</b>	<b>\$557,512</b>
	2000	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$590,000	\$544,601
All Other	1,863	1,863
<b>TOTAL</b>	<b>\$591,863</b>	<b>\$546,464</b>

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

	2001		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
FHA Programs	\$6,364	\$(311)	\$6,053
All Other	–	38	38
<b>TOTAL</b>	<b>\$6,364</b>	<b>\$(273)</b>	<b>\$6,091</b>
	2000		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
FHA Programs	\$7,195	\$327	\$7,522
All Other	–	32	32
<b>TOTAL</b>	<b>\$7,195</b>	<b>\$359</b>	<b>\$7,554</b>

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## H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

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

Loan Guarantee Programs	2001				Subsidy Amount
	Endorsement Amount	Default Component	Fee Component	Other Component	
FHA	\$122,639	\$1,933	\$ (4,555)	\$ 334	\$(2,288)
All Other	—	8	—	—	8
<b>TOTAL</b>	<b>\$122,639</b>	<b>\$1,941</b>	<b>\$ (4,555)</b>	<b>\$334</b>	<b>\$(2,280)</b>

Loan Guarantee Programs	2000				Subsidy Amount
	Endorsement Amount	Default Component	Fee Component	Other Component	
FHA	\$98,860	\$2,385	\$(4,594)	\$461	\$(1,748)
All Other	—	11	—	—	11
<b>TOTAL</b>	<b>\$98,860</b>	<b>\$2,396</b>	<b>\$(4,594)</b>	<b>\$461</b>	<b>\$(1,737)</b>

## I. Foreclosed Property:

The average holding period of single family properties is approximately 6 months while the average holding period of multifamily properties is 2 years. Additional requirements are usually attached to FHA's foreclosed property to restrict future use or disposal of those assets. The following shows FHA's number of foreclosed properties resulting from loans and loan guarantees as of September 30, 2001 and 2000:

Fiscal Year	Pre-1992		Post-1991	
	Single Family	Multifamily	Single Family	Multifamily
FY 2001	6,644	54	22,962	1
FY 2000	9,229	62	24,869	2

FHA's outstanding principal balance of foreclosure proceedings in process as of September 30, 2001 and 2000 were as follows (dollars in millions):

Fiscal Year	Pre-1992		Post-1991	
	Single Family	Multifamily	Single Family	Multifamily
FY 2001	\$10	\$102	\$4	\$93
FY 2000	\$0.2	\$116	\$0.1	\$22

FHA's number of properties in foreclosure proceedings in process as of September 30, 2001 and 2000 were as follows (dollars in millions):

Fiscal Year	Pre-1992		Post-1991	
	Single Family	Multifamily	Single Family	Multifamily
FY 2001	225	54	61	18
FY 2000	4	2	2	3

## NOTES – SEPTEMBER 30, 2001 and 2000

### Note 9 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2001 and 2000 were as follows (dollars in millions):

Description	2001			2000		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	–	–	–	\$7	–	\$7
Subsidy Re-Estimate Payable	\$1,396	–	\$1,396	517	–	517
Debt	4,853	\$4,382	9,235	7,420	\$ 5,001	12,421
Other Intragovernmental Liabilities	4,954	17	4,971	5,054	17	5,071
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$11,203</b>	<b>\$4,399</b>	<b>\$15,602</b>	<b>\$12,998</b>	<b>\$5,018</b>	<b>\$18,016</b>
Accounts Payable	954	–	954	901	–	901
Liabilities for Loan Guarantees	6,091	–	6,091	7,554	–	7,554
Unearned Premiums	555	–	555	682	–	682
Debentures Issued to Claimants	221	–	221	218	–	218
Insurance Liabilities	354	–	354	174	–	174
Loss Reserves	535	–	535	533	–	533
Debt	31	2,465	2,496	75	2,739	2,814
Other Liabilities	687	146	833	805	136	941
<b>TOTAL LIABILITIES</b>	<b>\$20,631</b>	<b>\$7,010</b>	<b>\$27,641</b>	<b>\$23,940</b>	<b>\$7,893</b>	<b>\$31,833</b>

### Note 10 – Debt

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

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The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2001 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	\$1,431	\$(1)	\$1,430
Held by the Public	3,032	(315)	2,717
Total Agency Debt	\$4,463	\$(316)	\$4,147
Other Debt:			
Debt to the U.S. Treasury	\$10,979	\$(3,182)	\$7,797
Debt to the Federal Financing Bank	11	(3)	8
Total Other Debt	\$10,990	\$(3,185)	\$7,805
<b>TOTAL DEBT</b>	<b>\$15,453</b>	<b>\$(3,501)</b>	<b>\$11,952</b>
Classification of Debt:			
Intragovernmental Debt			\$9,235
Debt held by the Public			2,496
Debentures Issued to Claimants			221
<b>TOTAL DEBT</b>			<b>\$11,952</b>

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2000 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	\$1,507	\$(77)	\$1,430
Held by the Public	3,211	(179)	3,032
Total Agency Debt	\$4,718	\$(256)	\$4,462
Other Debt:			
Debt to the U.S. Treasury	\$12,827	\$(1,847)	\$10,980
Debt to the Federal Financing Bank	14	(3)	11
Total Other Debt	\$12,841	\$(1,850)	\$10,991
<b>TOTAL DEBT</b>	<b>\$17,559</b>	<b>\$(2,106)</b>	<b>\$15,453</b>
Classification of Debt:			
Intragovernmental Debt			\$12,421
Debt held by the Public			2,814
Debentures Issued to Claimants			218
<b>TOTAL DEBT</b>			<b>\$15,453</b>

Interest paid on borrowings during the year ended September 30, 2001 and 2000 were \$1.2 billion and \$1.1 billion, respectively. The purposes of these borrowings are discussed in the following paragraphs.

### **Borrowings from the U.S. Treasury**

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 9.2 percent during fiscal 2001 and 7.44 percent to 11.06 percent for fiscal 2000.

In fiscal 2001 and 2000, FHA borrowed \$901million and \$703 million respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 5.68 percent to 7.59 percent during fiscal 2001, and 5.36 percent to 7.59 percent during fiscal 2000.

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

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 2.25 percent to 6 percent for both fiscal 2001 and 2000. The borrowings from the FFB have terms up to 40 years; the borrowings from the private sector have terms up to 30 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent for both fiscal 2001 and 2000.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

### **Debentures Issued To Claimants**

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4 percent to 12.88 percent in fiscal 2001 and from 4 percent to 13.38 percent in fiscal 2000. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

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## Note 11 – Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2001 (dollars in millions):

Description	Non-Current	Current	Total
<b>Intragovernmental Liabilities</b>			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	\$8	\$8
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	\$4,407	–	4,407
Miscellaneous Receipts Payable to Treasury	511	–	511
Other Liabilities	–	28	28
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$4,918</b>	<b>\$ 53</b>	<b>\$ 4,971</b>
<b>Other Liabilities</b>			
FHA Other Liabilities	\$36	\$278	\$314
FHA Escrow Funds Related to Mortgage Notes	–	158	158
Ginnie Mae Accounts Payable and Accrued Liabilities	–	50	50
Deferred Credits	–	4	4
Deposit Funds	–	75	75
Accrued Unfunded Annual Leave	62	1	63
Accrued Funded Payroll Benefits	49	–	49
Federal Employee and Veteran's Benefit	85	–	85
Other	34	1	35
<b>TOTAL OTHER LIABILITIES</b>	<b>\$5,184</b>	<b>\$620</b>	<b>\$ 5,804</b>

The following shows HUD's Other Liabilities as of September 30, 2000 (dollars in millions):

Description	Non-Current	Current	Total
<b>Intragovernmental Liabilities</b>			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD- Section 312 Rehabilitation Program Payable	–	\$7	\$7
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	\$4,451	–	4,451
Miscellaneous Receipts Payable to Treasury	591	–	591
Other Liabilities	–	5	5
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$5,042</b>	<b>\$29</b>	<b>\$5,071</b>
<b>Other Liabilities</b>			
FHA Other Liabilities	\$34	\$250	\$284
FHA Escrow Funds Related to Mortgage Notes	–	159	159
Ginnie Mae Accounts Payable and Accrued Liabilities	–	42	42
Deferred Credits	–	213	213
Deposit Funds	–	85	85
Accrued Unfunded Annual Leave	61	–	61
Federal Employee and Veteran's Benefit	75	–	75
Other	22	–	22
<b>TOTAL OTHER LIABILITIES</b>	<b>\$5,234</b>	<b>\$778</b>	<b>\$6,012</b>



## Note 12 – Loss Reserves

For fiscal 2001 and 2000, Ginnie Mae established loss reserves of \$535 million and \$533 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights that inure to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

## Note 13 – Unexpended Appropriations

HUD receives appropriations on both an annual and multiyear basis for all non-revolving fund activity. Unexpended appropriations are amounts not yet expended, which have not lapsed, been rescinded, or been withdrawn. The following is an analysis of HUD's fiscal 2001 Unexpended Appropriations (dollars in millions):

Description	Unobligated		Undelivered Orders	Accounts Receivable from Public	Total
	Available	Unavailable			
FHA – Subsidized Programs	\$1,878	\$94	\$78	–	\$2,050
FHA – Unsubsidized Programs	11	3	65	–	79
Section 8 Rental Assistance	1,675	10	15,978	\$150	17,813
CDBG	1,029	25	9,053	–	10,107
HOME	284	–	4,376	–	4,660
Operating Subsidies	141	–	1,652	–	1,793
Low Rent Public Housing Loans and Grants	862	–	8,569	636	10,067
Section 202/811	2,843	–	4,056	–	6,899
All Other	2,570	110	7,156	1	9,837
<b>Total</b>	<b>\$11,293</b>	<b>\$242</b>	<b>\$50,983</b>	<b>\$787</b>	<b>\$63,305</b>

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The following is an analysis of HUD's fiscal 2000 Unexpended Appropriations (dollars in millions):

Description	Unobligated		Undelivered Orders	Accounts Receivable from Public	Total
	Available	Unavailable			
FHA – Subsidized Programs	\$948	\$36	\$ 78	–	\$1,062
FHA – Unsubsidized Programs	9	–	80	–	89
Section 8 Rental Assistance	10	3	17,584	\$3	17,600
CDBG	888	15	9,017	5	9,925
HOME	189	–	4,092	1	4,282
Operating Subsidies	55	1	1,590	–	1,646
Low Rent Public Housing Loans and Grants	1,641	–	7,893	731	10,265
Section 202/811	2,687	–	3,974	–	6,661
All Other	2,515	124	6,700	1	9,340
<b>TOTAL</b>	<b>\$8,942</b>	<b>\$179</b>	<b>\$51,008</b>	<b>\$741</b>	<b>\$60,870</b>

## Note 14 – Financial Instruments with Off-Balance Sheet Risk

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

### A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2001 and 2000, was \$602 billion and \$590 billion, respectively and is discussed in Note 8F.

### B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2001 and 2000, was approximately \$604 billion. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2001 and 2000, were \$43 billion and \$36 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2001 and 2000, Ginnie Mae issued a total of \$67 billion and \$42 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2001 and 2000, were \$166 billion and \$136 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

### **C. Section 108 Loan Guarantees**

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2001 and 2000, were \$1.9 billion and \$1.8 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

## **Note 15 – Contingencies**

### **Lawsuits and Other**

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2001 and 2000. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

A case was filed by owners of 43 multifamily projects regarding alleged breach of owners' mortgage contracts effected by the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The Court of Federal Claims has ruled that the project owners' mortgage contracts had been breached by implementation of ELIHPA and LIHPRHA, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded \$3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that ELIHPA and LIHPRHA did not breach contract between the plaintiffs and HUD. The Federal Circuit remanded the action to the Court of Federal claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing en banc. On October 4, 1999, the United States Supreme Court denied certiorari.

In April 2000, the Court of Federal Claims held that because plaintiffs had chosen not to pursue their prepayment options through the statutorily required process, their takings claims were not ripe for review. HUD's motion for summary judgment was granted as to both the takings claims and the breach of contract claim; and the complaint was dismissed. On June 23, 2000, plaintiffs in this case filed a notice of appeal to the Federal Circuit. On

## FINANCIAL STATEMENTS

September 18, 2001, the United States Court of Appeals for the Federal Circuit reversed the Court of Federal Claims decision which had held that plaintiff's taking claims were not ripe for review. The Federal Circuit remanded the case to the Court of Federal Claims to adjudicate the takings claims of the four model plaintiffs and of the owners of the 39 other plaintiff project owners so that, if the factual circumstances of any or all of the remaining owners present a similarly compelling case of administrative futility, the trial court should adjudicate their takings claims, as well.

On December 5, 2001, in the related case, the court granted the Government's motion for summary judgment with respect to plaintiff's taking claims and dismissed the complaint. The Court concluded that the prepayment rights contained in the mortgage loan notes between plaintiffs and their private lending institutions are not properly protected by the Fifth Amendment's just Compensation Clause.

On January 8, 2002, the court issued an order directing that judgment be entered for the Government based upon the court's opinion issued in the related case of December 5, 2001. The plaintiffs filed their Notice of Appeal on January 11, 2002.

In two-dozen similar ELIPHA/ LIHPRHA cases, involving almost 800 project owners nationwide, which were brought between 1987 and 1996, several have been dismissed, and the dismissal affirmed or not appealed. As of September 2001, only 11 cases (involving 243 projects) were still pending.

The United States intends to continue to defend the remaining LIHPRHA cases vigorously. HUD is unable at this time to form a judgment about the likelihood of an unfavorable outcome, or to make an estimate of the amount or range of potential loss if the plaintiffs should prevail. Any adverse judgment would be paid out of the permanent indefinite appropriation established by 31 U.S.C. Section 1304 (the Government's Judgment Fund).

### **Note 16 – Rental Housing Subsidy Payment Errors**

In support of HUD's fiscal 2001 financial statements, the Department developed statistical estimates of the extent of erroneous rental housing subsidy payments attributed to under-reported tenant income and program processing errors by the public housing authorities, owners and agents (POAs) responsible for program administration. Estimates are based on prior year data from 2000, because this is the most recent period for which comprehensive independent sources of tenant income data are available for verification purposes.

Under HUD's rental assistance housing programs, tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify their income on an annual basis, and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly estimate their income, or the failure of the responsible POA to correctly process, calculate and bill the tenant's rental assistance, may result in the Department's overpayment or underpayment of housing subsidies.

In 2000, HUD began to expand the scope of its error measurement methodology to cover the three primary types of rental housing assistance program errors, including errors related to: 1) POA income and rent determinations, 2) tenant reporting of income, and 3) POA billings for subsidy payments. The current error measurement methodology addresses the first two of these three components, and has been improved to provide for interviewing a representative sample of tenants, verifying and validating tenant income reporting, and recalculating rents for comparison to POA determinations for the purpose of identifying errors. The below estimations are considered a baseline error measurement for the POA rent determination and tenant income reporting components. The estimated payment error attributed to tenant underreporting of income is higher than the prior year estimate of this error component, due to revisions in the methodology used for measuring this type of error. Past estimates only considered the impacts of underreported income amounts over a \$3,000 threshold using a sample of tenants in HUD data systems. The methodology was revised this year to lower the threshold to \$1,000 to better reflect program requirements, and was based on a random selection of all tenants, including those who were not covered by past income matching efforts. HUD plans to expand its baseline error measurement to cover the subsidy-billing component in 2002. Starting in 2003, HUD intends to annually measure and report on all three error components.

HUD estimates of erroneous payments attributed to POA rent calculation and processing errors were based on a HUD Office of Policy Development and Research (PD&R) study of “Quality Control for Rental Assistance Subsidies Determinations,” which was published as a final report in June 2001. This PD&R study verified rent calculations for a representative sample of 2,403 households receiving assistance in 2000. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to a subsidy overpayment or underpayment situation. Errors were considered if they exceeded a \$5 impact threshold on monthly subsidy payment amounts. The study projected, with 95 percent confidence, annual subsidy overpayments of \$1.669 billion  $\pm$  \$251 million and annual subsidy underpayments of \$634 million  $\pm$  \$151 million, due to errors attributable to program administration by POAs.

In developing the estimate of subsidy overpayments attributed to tenant underreporting of income, the Department used the same PD&R sample of 2,403 households assisted in 2000, and compared earned and unearned household income reported to the POAs to income data from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Identified cases of possible undisclosed income sources were verified with employers and further examined to determine if the income discrepancies would affect the computation of the correct HUD rental subsidy amount, or if the income discrepancies were attributed to other causes not affecting the subsidy amount, such as: data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation. Validated income discrepancies were further assessed against the original POA error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projects, with 95 percent confidence, that the amount of subsidy overpayments attributed to tenant underreporting of income was \$978 million  $\pm$  \$247 million.

The combined effect of the estimated \$1.669 billion of overpayments and \$634 million of underpayments attributed to POA program processing errors, plus the \$978 million of overpayments attributed to tenant underreporting of income, yields a gross payment error

## FINANCIAL STATEMENTS

estimate of \$3.281 billion. Offsetting the overpayment and underpayment error estimates yields a net annual subsidy overpayment estimate of \$2.013 billion, which represents approximately 10.7 percent of the \$18.883 billion in total rental subsidies paid by HUD in fiscal 2000.

HUD is taking actions to address the causes of erroneous subsidy payments, and is instituting necessary controls to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. It should be noted that the reduction of errors and improper payments may not have as significant an impact on budget outlays as anticipated. HUD's experience indicates that its efforts may have the possible effect of causing some higher income tenants to leave subsidized housing with the potential result that they would be replaced by lower income tenants requiring increased outlays. To the extent there would be any significant outlay savings resulting from HUD's program integrity improvement efforts, HUD plans to work with OMB and the Congress to explore mechanisms for reuse of the funds to assist additional households in need.

### Note 17 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2001 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
<b>Intragovernmental:</b>			
Commerce and Housing Credit	\$ 829	\$430	\$399
Community and Regional Development	70	2	68
Income Security	273	12	261
Administration of Justice	–	–	–
Miscellaneous	–	–	–
<b>TOTAL INTRAGOVERNMENTAL</b>	<b>\$1,172</b>	<b>\$444</b>	<b>\$728</b>
<b>With the Public:</b>			
Commerce and Housing Credit	\$100	\$4,373	\$(4,273)
Community and Regional Development	5,354	5	5,349
Income Security	28,893	(130)	29,023
Administration of Justice	37	–	37
Miscellaneous	–	–	–
<b>TOTAL WITH THE PUBLIC</b>	<b>\$34,384</b>	<b>\$4,248</b>	<b>\$30,136</b>
<b>TOTAL:</b>			
Commerce and Housing Credit	\$929	\$4,803	\$(3,874)
Community and Regional Development	5,424	7	5,417
Income Security	29,166	(118)	29,284
Administration of Justice	37	–	37
Miscellaneous	–	–	–
<b>TOTAL:</b>	<b>\$35,556</b>	<b>\$4,692</b>	<b>\$30,864</b>



## NOTES – SEPTEMBER 30, 2001 and 2000

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2000 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
<b>Intragovernmental:</b>			
Commerce and Housing Credit	\$938	\$1,837	\$(899)
Community and Regional Development	51	2	49
Income Security	352	(73)	425
Administration of Justice	–	–	–
Miscellaneous	–	–	–
<b>TOTAL INTRAGOVERNMENTAL</b>	<b>\$1,341</b>	<b>\$1,766</b>	<b>\$(425)</b>
<b>With the Public:</b>			
Commerce and Housing Credit	\$3,020	\$3,134	\$(114)
Community and Regional Development	5,293	6	5,287
Income Security	27,891	30	27,861
Administration of Justice	35	–	35
Miscellaneous	–	–	–
<b>TOTAL WITH THE PUBLIC</b>	<b>\$36,239</b>	<b>\$3,170</b>	<b>\$33,069</b>
<b>TOTAL:</b>			
Commerce and Housing Credit	\$3,958	\$4,971	\$(1,013)
Community and Regional Development	5,344	8	5,336
Income Security	28,243	(43)	28,286
Administration of Justice	35	–	35
Miscellaneous	–	–	–
<b>TOTAL:</b>	<b>\$37,580</b>	<b>\$4,936</b>	<b>\$32,644</b>

Fiscal 2000 total cost and earned revenues were restated to more accurately reflect the department's net cost by Budget Functional Classifications (BFC). Costs and revenues previously reported under the Miscellaneous BFC have been added to the Income and Security BFC, with the exception of \$263 million reduction in revenues and \$263 million reduction in cost, which should have been reported under the Community and Regional Development BFC. These costs and revenues are intra-department elimination entries associated with appropriations reported under the Community and Regional Development and Income and Security BFCs.







# **Consolidating Financial Statements**

**(By Major Program Area)**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2001**  
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Elimination	Consolidating
<b>ASSETS</b>											
<b>Entity Assets</b>											
Intragovernmental											
Fund Balance with Treasury (Note 2)	\$8,822	\$2,043	\$18,041	\$10,149	\$4,669	\$1,829	\$10,271	\$7,065	\$10,439		\$73,328
Investments (Note 4)	17,331	6,641									23,972
Accounts Receivable, Net (Note 6)	9								8	\$(8)	9
Other Assets (Note 7)	86		2	6	6		10		30	(91)	49
Total Intragovernmental Assets	\$26,248	\$8,684	\$18,043	\$10,155	\$4,675	\$1,829	\$10,281	\$7,065	\$10,477	(\$99)	\$97,358
Accounts Receivable, Net (Note 6)	334	33	391						5		763
Credit Program Receivables (Note 8)	2,685						5	7,891	280		10,861
Other Assets (Note 7)	125	22							66		213
<b>TOTAL ASSETS</b>	<b>\$29,392</b>	<b>\$8,739</b>	<b>\$18,434</b>	<b>\$10,155</b>	<b>\$4,675</b>	<b>\$1,829</b>	<b>\$10,286</b>	<b>\$14,956</b>	<b>\$10,828</b>	<b>(\$99)</b>	<b>\$109,195</b>
<b>LIABILITIES</b>											
Intragovernmental Liabilities											
Accounts Payable				\$5					\$3	\$(8)	\$0
Debt (Note 10)	\$4,544						\$1,430	3,253	8		\$9,235
Subsidy Re-Estimate Payable	1,396										1,396
Other Intragovernmental Liabilities (note 11)	30		\$510					4,406	116	(91)	4,971
Total Intragovernmental Liabilities	\$5,970		\$510	\$5	\$0	\$0	\$1,430	\$7,659	\$127	(\$99)	\$15,602
Accounts Payable	653	\$30	105	39	14	32	35	9	37		954
Liabilities for Loan Guarantees (Note 8)	6,053								38		6,091
Debt (Note 10)							2,496				2,496
Unearned Premiums	555										555
Debentures Issued to Claimants (Note 10)	221										221
Loss Reserves (Note 12)		535									535
Insurance Liabilities	354										354
Other Governmental Liabilities (Note 11)	472	50	7	4	1	4	6	24	265		833
<b>TOTAL LIABILITIES</b>	<b>\$14,278</b>	<b>\$615</b>	<b>\$622</b>	<b>\$48</b>	<b>\$15</b>	<b>\$36</b>	<b>\$3,967</b>	<b>\$7,692</b>	<b>\$467</b>	<b>(\$99)</b>	<b>\$27,641</b>
<b>NET POSITION</b>											
Unexpended Appropriations (Note 13)	\$2,129		\$17,812	\$10,107	\$4,660	\$1,793	\$10,068	\$6,899	\$9,837		\$63,305
Cumulative Results of Operations	12,985	\$8,124					(3,749)	365	524		18,249
<b>TOTAL NET POSITION</b>	<b>\$15,114</b>	<b>\$8,124</b>	<b>\$17,812</b>	<b>\$10,107</b>	<b>\$4,660</b>	<b>\$1,793</b>	<b>\$6,319</b>	<b>\$7,264</b>	<b>\$10,361</b>		<b>\$81,554</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$29,392</b>	<b>\$8,739</b>	<b>\$18,434</b>	<b>\$10,155</b>	<b>\$4,675</b>	<b>\$1,829</b>	<b>\$10,286</b>	<b>\$14,956</b>	<b>\$10,828</b>	<b>(\$99)</b>	<b>\$109,195</b>

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2000**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>ASSETS</b>										
Intragovernmental										
Fund Balance with Treasury (Note 2)	\$7,915	\$1,618	\$17,751	\$9,979	\$4,296	\$1,730	\$10,458	\$6,961	\$9,913	\$70,621
Investments (Note 4)	17,312	6,260								23,572
Accounts Receivable (Net) (Note 6)	19								1	20
Other Assets (Note 7)	49									49
Total Intragovernmental Assets	\$25,295	\$7,878	\$17,751	\$9,979	\$4,296	\$1,730	\$10,458	\$6,961	\$9,914	\$94,262
Accounts Receivable, Net (Note 6)	176	32	669	5	1		6		22	911
Credit Program Receivables (Note 8)	2,721						13	7,992	304	11,030
Other Assets (Note 7)	90	9							30	129
<b>TOTAL ASSETS</b>	<b>\$28,282</b>	<b>\$7,919</b>	<b>\$18,420</b>	<b>\$9,984</b>	<b>\$4,297</b>	<b>\$1,730</b>	<b>\$10,477</b>	<b>\$14,953</b>	<b>\$10,270</b>	<b>\$106,332</b>
<b>LIABILITIES</b>										
Intragovernmental Liabilities										
Accounts Payable	\$1		\$4						\$2	\$7
Debt (Note 10)	7,155						1,431	3,824	11	12,421
Subsidy Re-Estimate Payable	517									517
Other Intragovernmental Liabilities (Note 11)	7		516					4,452	96	5,071
Total Intragovernmental Liabilities	\$7,680		\$520	\$0	\$0	\$0	\$1,431	\$8,276	\$109	\$18,016
Accounts Payable	505	25	86	59	15	83	49	6	73	901
Liabilities for Loan Guarantees (Note 8)	7,522								32	7,554
Debt (Note 10)							2,814			2,814
Unearned Premiums	682									682
Debentures Issued to Claimants (Note 10)	218									218
Loss Reserves (Note 12)		533								533
Insurance Liabilities	174									174
Other Governmental Liabilities (Note 11)	443	42	214				9	10	223	941
<b>TOTAL LIABILITIES</b>	<b>\$17,224</b>	<b>\$600</b>	<b>\$820</b>	<b>\$59</b>	<b>\$15</b>	<b>\$83</b>	<b>\$4,303</b>	<b>\$8,292</b>	<b>\$437</b>	<b>\$31,833</b>
<b>NET POSITION</b>										
Unexpended Appropriations (Note 13)	\$1,151		\$17,600	\$9,925	\$4,282	\$1,647	\$10,264	\$6,661	\$9,340	\$60,870
Cumulative Results of Operations	9,907	7,319					(4,090)		493	13,629
<b>TOTAL NET POSITION</b>	<b>\$11,058</b>	<b>\$7,319</b>	<b>\$17,600</b>	<b>\$9,925</b>	<b>\$4,282</b>	<b>\$1,647</b>	<b>\$6,174</b>	<b>\$6,661</b>	<b>\$9,833</b>	<b>\$74,499</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$28,282</b>	<b>\$7,919</b>	<b>\$18,420</b>	<b>\$9,984</b>	<b>\$4,297</b>	<b>\$1,730</b>	<b>\$10,477</b>	<b>\$14,953</b>	<b>\$10,270</b>	<b>\$106,332</b>

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 2001**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>NET COST OF OPERATIONS</b>	(\$2,724)	(\$805)	\$16,794	\$4,980	\$1,436	\$3,147	\$4,055	\$433	\$3,548	\$30,864
<b>Financing Sources</b> <b>(other than exchange revenue)</b>										
Appropriations Used	(1,370)		(16,743)	(4,925)	(1,418)	(3,087)	(4,339)	(772)	(3,578)	(36,232)
Imputed Financing	(14)								(56)	(70)
Transfers (In) / Out	1,284								(204)	1,080
Other Financing Sources	7		(51)	(55)	(18)	(60)	(57)	(26)	260	
<b>NET RESULTS OF OPERATIONS</b>	(\$2,817)	(\$805)	\$0	\$0	\$0	\$0	(\$341)	(365)	(\$30)	(\$4,358)
Prior Period Adjustments	(261)									(261)
Net Changes in Cumulative Results of Operations	(\$3,078)	(\$805)	\$0	\$0	\$0	\$0	(\$341)	(\$365)	(\$30)	(\$4,619)
Change in Unexpended Appropriations	(978)		(212)	(182)	(378)	(146)	196	(238)	(498)	(2,436)
<b>CHANGE IN NET POSITION</b>	(\$4,056)	(\$805)	(\$212)	(\$182)	(\$378)	(\$146)	(\$145)	(\$603)	(\$528)	(\$7,055)
<b>NET POSITION-BEGINNING OF PERIOD</b>	(11,058)	(7,319)	(17,600)	(9,925)	(4,282)	(1,647)	(6,174)	(6,661)	(9,833)	(74,499)
<b>NET POSITION-END OF PERIOD</b>	(\$15,114)	(\$8,124)	(\$17,812)	(\$10,107)	(\$4,660)	(\$1,793)	(\$6,319)	(\$7,264)	(\$10,361)	(\$81,554)

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 2000**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>NET COST OF OPERATIONS</b>	\$46	(\$763)	\$15,990	\$5,012	\$1,499	\$2,889	\$4,168	\$404	\$3,399	\$32,644
<b>Financing Sources (other than exchange revenue)</b>										
Appropriations Used	(1,124)		(15,990)	(5,012)	(1,499)	(2,889)	(4,171)	(733)	(3,027)	(34,445)
Imputed Financing	(11)								(38)	(49)
Transfers (In) / Out	436								(234)	202
Other Financing Sources									35	35
<b>NET RESULTS OF OPERATIONS</b>	(\$653)	(\$763)	\$0	\$0	\$0	\$0	(\$3)	(\$329)	\$135	(\$1,613)
Prior Period Adjustments	(8)								(13)	(21)
Net Change in Cumulative Results of Operations	(\$661)	(\$763)	\$0	\$0	\$0	\$0	(\$3)	(\$329)	\$122	(\$1,634)
Change in Unexpended Appropriations	(837)		4,260	7	(148)	(268)	(446)	133	(632)	2,069
<b>CHANGE IN NET POSITION</b>	(\$1,498)	(\$763)	\$4,260	\$7	(\$148)	(\$268)	(\$449)	(\$196)	(\$510)	\$435
<b>NET POSITION-BEGINNING OF PERIOD</b>	(9,560)	(6,556)	(21,860)	(9,932)	(4,134)	(1,379)	(5,725)	(6,465)	(9,323)	(74,934)
<b>NET POSITION-END OF PERIOD</b>	(\$11,058)	(\$7,319)	(\$17,600)	(\$9,925)	(\$4,282)	(\$1,647)	(\$6,174)	(\$6,661)	(\$9,833)	(\$74,499)

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
COMBINING STATEMENT OF BUDGETARY RESOURCES  
FOR THE YEAR ENDED SEPTEMBER 2001**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>BUDGETARY RESOURCES:</b>										
Budget Authority	\$8,634		\$18,941	\$5,602	\$1,800	\$3,242	\$4,169	\$1,083	\$4,123	\$47,594
Net Transfers, Current Year Auth									6	6
Unobligated Balance – Beginning of Year	23,476	\$7,839	2,958	903	189	57	1,714	2,876	4,183	44,195
Spending Authority from Offsetting Collections	17,842	918	(27)	0	(4)	(1)	77	793	1,071	20,669
Adjustments										
Recoveries of Prior Year Obligation	20		2,583	14	9	3	55	59	536	3,279
Permanently Not Available										
Cancelled-Expired & No Year Accts			(8)	(5)		(1)			(42)	(56)
Enacted Recissions Prior Year Bal	(2)		(1,971)	(490)	(4)	(7)	(48)	(2)	(10)	(2,534)
Capital Trans & Debt Redemption	(4,880)						(94)	(666)	(123)	(5,763)
Other Authority Withdrawn			(5,149)				(584)		(1,130)	(6,863)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$45,090</b>	<b>\$8,757</b>	<b>\$17,327</b>	<b>\$6,024</b>	<b>\$1,990</b>	<b>\$3,293</b>	<b>\$5,289</b>	<b>\$4,143</b>	<b>\$8,614</b>	<b>\$100,527</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>										
Obligations Incurred	\$20,718	\$151	\$15,642	\$4,970	\$1,706	\$3,152	\$4,406	\$1,221	\$4,383	\$56,349
Unobligated Balances Available	3,760		739	1,027	284	138	867	2,846	2,967	12,628
Unobligated Balances Not Yet Available	20,612	8,606	946	27	0	3	16	76	1,264	31,550
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$45,090</b>	<b>\$8,757</b>	<b>\$17,327</b>	<b>\$6,024</b>	<b>\$1,990</b>	<b>\$3,293</b>	<b>\$5,289</b>	<b>\$4,143</b>	<b>\$8,614</b>	<b>\$100,527</b>
<b>OUTLAYS:</b>										
Obligations Incurred	\$20,718	\$151	\$15,642	\$4,970	\$1,706	\$3,152	\$4,406	\$1,221	\$4,383	\$56,349
Less: Spending Authority From Offsetting Collections and Adjustments	17,842	918	(27)	0	(4)	(1)	77	793	1,071	20,669
Actual Recoveries-Prior Year Obligations	20		2,583	14	9	3	55	59	536	3,279
Obligated Balance, Net Beginning of Period	1,445	(63)	46,129	9,074	4,106	1,671	13,690	4,157	17,504	97,713
Obligated Balance Transferred, Net										
Less: Obligated Balance, Net – End of Period	1,477	(39)	42,495	9,091	4,383	1,683	13,711	4,215	16,865	93,881
<b>TOTAL OUTLAYS</b>	<b>\$2,824</b>	<b>(\$791)</b>	<b>\$16,720</b>	<b>\$4,939</b>	<b>\$1,424</b>	<b>\$3,138</b>	<b>\$4,253</b>	<b>\$311</b>	<b>\$3,415</b>	<b>\$36,233</b>

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
COMBINING STATEMENT OF BUDGETARY RESOURCES  
FOR THE YEAR ENDED SEPTEMBER 2000**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>BUDGETARY RESOURCES:</b>										
Budget Authority	\$2,762		\$7,279	\$4,833	\$1,636	\$3,167	\$3,606	\$929	\$3,630	\$27,842
Net Transfers, Current Year Authority			124	29	10				(33)	130
Unobligated Balance – Beginning of Year	19,953	\$7,024	5,955	947	194	23	2,790	3,665	4,232	44,783
Net Transfers Prior Year Balance, Actual			(233)				46		63	(124)
Spending Authority from Offsetting Collections	14,139	912					79	808	345	16,283
Adjustments										
Recoveries of Prior Year Obligation	171		1,885	13	3	8	137	22	229	2,468
Permanently Not Available										
Cancelled-Expired and No Year Accts				(3)		(10)			(41)	(54)
Enacted Recissions Prior Year Balance			(2,356)	(18)			(276)		(50)	(2,700)
Capital Trans and Debt Redemption	(1,545)						(95)	(1,247)	(53)	(2,940)
Other Authority Withdrawn									(165)	(165)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$35,480</b>	<b>\$7,936</b>	<b>\$12,654</b>	<b>\$5,801</b>	<b>\$1,843</b>	<b>\$3,188</b>	<b>\$6,287</b>	<b>\$4,177</b>	<b>\$8,157</b>	<b>\$85,523</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>										
Obligations Incurred	\$12,004	\$97	\$9,696	\$4,899	\$1,654	\$3,132	\$4,573	\$1,300	\$3,973	\$41,328
Unobligated Balances Available	4,907		1,208	879	185	46	1,671	2,746	2,794	14,436
Unobligated Balances Not Yet Available	18,569	7,839	1,750	23	4	10	43	131	1,390	29,759
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$35,480</b>	<b>\$7,936</b>	<b>\$12,654</b>	<b>\$5,801</b>	<b>\$1,843</b>	<b>\$3,188</b>	<b>\$6,287</b>	<b>\$4,177</b>	<b>\$8,157</b>	<b>\$85,523</b>
<b>OUTLAYS:</b>										
Obligations Incurred	\$12,004	\$97	\$9,696	\$4,899	\$1,654	\$3,132	\$4,573	\$1,300	\$3,973	\$41,328
Less: Spending Authority From Offsetting Collections and Adjustments	14,139	912					79	808	345	16,283
Actual Recoveries-Prior Year Obligations	171		1,885	13	3	8	137	22	229	2,468
Obligated Balance, Net Beginning of Period	1,468	(46)	54,727	9,009	3,944	1,412	13,752	3,996	16,934	105,196
Obligated Balance Transferred, Net			(333)	169	1		5		158	
Less: Obligated Balance, Net – End of Period	1,445	(63)	46,129	9,074	4,107	1,671	13,690	4,156	17,504	97,713
<b>TOTAL OUTLAYS</b>	<b>(\$2,283)</b>	<b>(\$798)</b>	<b>\$16,076</b>	<b>\$4,990</b>	<b>\$1,489</b>	<b>\$2,865</b>	<b>\$4,424</b>	<b>\$310</b>	<b>\$2,987</b>	<b>\$30,060</b>

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
COMBINING STATEMENT OF FINANCING  
FOR THE YEAR ENDED SEPTEMBER 2001**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES</b>										
Obligations Incurred	\$20,718	\$151	\$15,642	\$4,970	\$1,706	\$3,152	\$4,406	\$1,221	\$4,383	\$56,349
Spending Authority from Offsetting Collections and Adjustments	(17,842)	(918)	27	(0)	4	1	(77)	(793)	(1,071)	(20,669)
Recoveries-Prior Year Obligations	(20)		(2,583)	(14)	(9)	(3)	(55)	(59)	(536)	(3,279)
Financing Imputed for Cost Subsidies	14								56	70
Transfers In (Out)	(203)								203	0
Exchange Revenue Not in the Budget							1	(15)	(52)	(66)
Non-Exchange Revenue Not in Budget			150						(10)	140
Exchange Revenue in the Budget								12	(6)	6
Other	(7)		51	55	18	59	57	27	(260)	0
<b>TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES</b>	<b>\$2,660</b>	<b>(\$767)</b>	<b>\$13,287</b>	<b>\$5,011</b>	<b>\$1,719</b>	<b>\$3,209</b>	<b>\$4,332</b>	<b>\$393</b>	<b>\$2,707</b>	<b>\$32,551</b>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>										
Change in Amount of Goods, Services and Benefits Ordered, But Not Yet Received or Provided	\$0	\$0	\$3,654	(\$36)	(\$283)	(\$62)	(\$18)	(\$75)	\$697	3,877
Costs Capitalized on the Balance Sheet	5,498	(62)					78	115	129	5,758
Financing Sources that Fund Costs of Prior Periods	(8,298)			5			6		(76)	(8,363)
Other	(61)						(343)		51	(353)
<b>TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>	<b>(\$2,861)</b>	<b>(\$62)</b>	<b>\$3,654</b>	<b>(\$31)</b>	<b>(\$283)</b>	<b>(\$62)</b>	<b>(\$277)</b>	<b>\$40</b>	<b>\$801</b>	<b>\$919</b>
<b>COSTS THAT DO NOT REQUIRE RESOURCES</b>										
Depreciation and Amortization									\$4	\$4
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	(\$327)		\$3						(142)	(466)
Revaluation of assets & Liabilities	(831)									(831)
Loss of Disposition of Assets	697								51	748
Other	(4,035)	\$24	(150)						116	(4,045)
<b>TOTAL COSTS NOT REQUIRING RESOURCES</b>	<b>(\$4,496)</b>	<b>\$24</b>	<b>(147)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$0)</b>	<b>\$0</b>	<b>\$29</b>	<b>(\$4,590)</b>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<b>\$1,973</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$11</b>	<b>\$1,984</b>
<b>NET COST OF OPERATIONS</b>	<b>(\$2,724)</b>	<b>(\$805)</b>	<b>\$16,794</b>	<b>\$4,980</b>	<b>\$1,436</b>	<b>\$3,147</b>	<b>\$4,055</b>	<b>\$433</b>	<b>\$3,548</b>	<b>\$30,864</b>



**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**COMBINING STATEMENT OF FINANCING**  
**FOR THE YEAR ENDED SEPTEMBER 2000**

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES</b>										
Obligations Incurred	\$12,004	\$97	\$9,696	\$4,899	\$1,654	\$3,132	\$4,573	\$1,300	\$3,973	\$41,328
Spending Authority from Offsetting Collections and Adjustments	(14,139)	(912)					(79)	(808)	(275)	(16,213)
Recoveries-Prior Year Obligations	(171)		(1,885)	(13)	(3)	(8)	(137)	(22)	(229)	(2,468)
Financing Imputed for Cost Subsidies	11								38	49
Transfers In (Out)	(233)								233	
Exchange Revenue Not in the Budget							(2)		66	64
Other								8		8
<b>TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES</b>	<b>(\$2,528)</b>	<b>(\$815)</b>	<b>\$7,811</b>	<b>\$4,886</b>	<b>\$1,651</b>	<b>\$3,124</b>	<b>\$4,355</b>	<b>\$478</b>	<b>\$3,806</b>	<b>\$22,768</b>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>										
Change in Amount of Goods, Services and Benefits Ordered, But Not Yet Received or Provided			\$8,166	\$131	(\$152)	(\$235)	\$89	(\$197)	(\$493)	\$7,309
Costs Capitalized on the Balance sheet	\$1,907	\$30					78	124	16	2,155
Financing Sources that Fund Costs of Prior Periods				(5)			(5)		(1)	(11)
Other	289						(349)		16	(44)
<b>TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>	<b>\$2,196</b>	<b>\$30</b>	<b>\$8,166</b>	<b>\$126</b>	<b>(\$152)</b>	<b>(\$235)</b>	<b>(\$187)</b>	<b>(\$73)</b>	<b>(\$462)</b>	<b>\$9,409</b>
<b>COSTS THAT DO NOT REQUIRE RESOURCES</b>										
Depreciation and Amortization									\$6	\$6
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	\$78		\$13					(\$1)	(20)	70
Revaluation of assets & Liabilities	(1,127)									(1,127)
Loss of Disposition of Assets	728									728
Other	(3,245)	\$22							52	(3,171)
<b>TOTAL COSTS NOT REQUIRING RESOURCES</b>	<b>(\$3,566)</b>	<b>\$22</b>	<b>\$13</b>					<b>(\$1)</b>	<b>\$38</b>	<b>(\$3,494)</b>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<b>\$3,944</b>								<b>\$17</b>	<b>\$3,961</b>
<b>NET COST OF OPERATIONS</b>	<b>\$46</b>	<b>(\$763)</b>	<b>\$15,990</b>	<b>\$5,012</b>	<b>\$1,499</b>	<b>\$2,889</b>	<b>\$4,168</b>	<b>\$404</b>	<b>\$3,399</b>	<b>\$32,644</b>





# **Required Supplementary Stewardship Information (Unaudited)**

**Investment in Non-Federal Physical Property**  
**Investment in Human Capital**

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

This section provides information on certain resources entrusted to HUD. These resources do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial condition. The stewardship objective requires that HUD report on the broad outcomes of its actions. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities. HUD's stewardship reporting responsibilities extend to investments made by a number of HUD programs in Non-Federal Physical Property and Human Capital. Due to the relative immateriality of the calculation and in the application of the related administrative costs, the amounts reported below reflect direct program costs only. The investments addressed in this section are due to programs administered through HUD's Offices of Community Planning and Development (CPD) and Office of Public and Indian Housing (PIH).

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.

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.

### 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. The Department funds the following programs, which generate Investments in Non-Federal Physical Property:

#### CPD Programs

**Community Development Block Grants (CDBG)** are provided to State and local communities, which in turn use these funds to support a wide variety of community development activities within their jurisdiction. 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 are free to 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 was used to acquire or rehabilitate property owned by State and local governments.

**Disaster Grants** are provided to help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.

**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.

## PIH Programs

The **Public Housing (PH) Capital Fund** provides grants to Public Housing Agencies (PHAs) to improve the physical condition and to upgrade the management and operation of existing public housing.

**HOPE VI** grants are provided to PHAs, enabling them to improve the living environment of public housing residents in distressed public housing units. A portion of these funds is used to acquire or rehabilitate property owned by the PHAs.

**Indian Housing Block Grants (IHBG)** provides funds needed to allow tribal housing organizations maintain existing units and to begin development of new units to meet their critical long-term housing needs.

**Indian Community Development Block Grants (ICDBG)** provides 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 **Public Housing Drug Elimination Program (PHDEP)** seeks to eliminate drug-related crime and activities in Public and Indian Housing communities. A portion of these funds is used to improve property owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after FY 2001.

The following table summarizes material HUD Investments in Non-Federal Physical Property, by program:

**HUD Investments in  
Non-Federal Physical Property, 1998-2001**  
(Dollars in Millions)

Program	1998	1999	2000	2001
CPD				
CDBG	\$761	\$603	\$1,237	\$1,189
Disaster Grants	39	29	198	56
HOME	—	—	34	24
PIH				
PH Capital Fund	\$2,178	\$2,414	\$2,046	\$1,863
HOPE VI	169	236	291	495
IHBG <sup>1</sup>	319	182	176	n/a
ICDBG	47	52	63	53
PHDEP <sup>2</sup>	11	10	6	4
<b>TOTAL</b>	<b>\$3,524</b>	<b>\$3,526</b>	<b>\$4,051</b>	<b>\$3,684</b>

<sup>1</sup> 2001 investment data is unavailable for FY 2001 due to transition in contractor support providing data. HUD expects to resume reporting information for IHBG in FY 2002.

<sup>2</sup> FY 1999 and 2000 investment results are restated (\$7m and \$10m reported in FY 2000, respectively) due to availability of more precise data. Congress has terminated funding for the PHDEP program for FY 2002.

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

### Investment In Human Capital

Human Capital investments support education and training programs intended to increase or maintain national economic productive capacity. The Department funds the following programs that generate Investments in Human Capital:

#### CPD Programs

**Community Development Block Grants (CDBG):** A portion of these grants is used to provide employment and job training to low and moderate-income persons.

**YouthBuild** grants are designed to assist younger individuals to obtain education, employment skills and meaningful work experience in a construction trade thus allowing them to become more productive and self-sufficient.

#### PIH Programs

**HOPE VI** grants provided to public housing agencies support improvement in the living environment of public housing residents in distressed public housing units. A portion of these funds is used to provide education and job training to residents of the public housing communities targeted for rehabilitation.

The table on the following page summarizes HUD investments in human capital by program:

**HUD Investments in Human Capital FY 1998-2001**  
(Dollars in Millions)

Program	1998	1999	2000	2001
CPD:				
CDBG	\$16	\$21	\$22	\$25
Youthbuild	9	12	13	15
PIH:				
HOPE VI	27	22	29	55
TOTAL	\$52	\$55	\$64	\$95

## Impacts of Human Capital Investments

### CPD Programs

The following table presents the output (number of people trained) generated by human capital investments by CPD programs:

**Number of People Trained**

Program	1998	1999	2000	2001
CDBG <sup>1</sup>	120,037	131,000	252,800	127,565
Youthbuild	2,264	2,752	3,000	3,614
<b>TOTAL</b>	<b>122,301</b>	<b>133,752</b>	<b>255,800</b>	<b>131,179</b>

<sup>1</sup>Fluctuations in training estimates reflect revised estimation methods.

### PIH Programs

**HOPE VI:** Cumulative performance information since the program's inception (FY 1993) was available for FY 2001. Annual performance information will be available starting in FY 2002. The following table summarizes key performance information stemming from HOPE VI human capital investments as of September 30, 2001:

HOPE VI Service	2001 Enrolled	2001 Completed	Percent Completed
Employment Preparation, Placement, & Retention	9,508	n/a	n/a
Job Skills Training Programs	5,767	3,583	62%
High School Equivalent Education	2,987	1,793	60%
Entrepreneurship Training	897	530	59%
Homeownership Counseling	3,017	1,196	40%

In addition, dating back to the program's inception, more than 13,500 program participants are currently employed, with over 9,000 employed 6 months or more. Entrepreneurship training contributed to the creation of over 200 new businesses, employing more than 300 HOPE VI property residents.







# **Required Supplementary Information (Unaudited)**

## **Intra-Governmental Balances**

# REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

## Intra-Governmental Balances

HUD's Intra-governmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets and liabilities as follows:

### September 30, 2001

(Dollars in Millions)

#### Intra-Governmental Assets:

Agency	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	\$73,328	—	\$23,972	\$7	\$97,307
Other Agencies	—	\$9	—	42	51
Total	\$73,328	\$9	\$23,972	\$49	\$97,358

#### Intra-Governmental Liabilities:

Agency	Accounts Payable	Debt	Other	Total
Department of Treasury	—	\$9,235	\$6,314	\$15,549
Other Agencies	—	—	53	53
Total	—	\$9,235	\$6,367	\$15,602

### September 30, 2000

(Dollars in Millions)

#### Intra-Governmental Assets:

Agency	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	\$70,596	\$19	\$23,572	\$8	\$94,195
Other Agencies	25	1	—	41	67
Total	\$70,621	\$20	\$23,572	\$49	\$94,262

#### Intra-Governmental Liabilities:

Agency	Accounts Payable	Debt	Other	Total
Department of Treasury	—	\$12,421	\$5,559	\$17,980
Other Agencies	\$7	—	29	36
Total	\$7	\$12,421	\$5,588	\$18,016