Notes To Financial Statements

September 30, 2013 and 2012

Note 1: Entity and Mission

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

HUD’s major programs are as follows:

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

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

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

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

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

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

The Community Development Block Grant (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the “Community
Development Fund” for emergency expenses to respond to various disasters such as Hurricane Katrina and IKE. Funds of $1.5 billion were disbursed in FY 2013 and $868 million in FY 2012. Any remaining un-obligated balances remain available until expended.

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

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and for maintenance costs of PHAs and TDHEs housing projects. The programs provided 9 percent of HUD’s consolidated revenues and financing sources for FY 2013 and 12 percent of HUD’s consolidated revenues and financing sources for FY 2012.

Note 2: Summary of Significant Accounting Policies

**A. Basis of Consolidation**

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

The Department’s FY 2013 financial statements do not include the accounts and transactions of one transfer appropriation, the Appalachian Regional Commission. Some laws require departments (parent) to allocate budget authority to another department (child). Allocation means a delegation, authorized by law, by one department of its authority to obligate and outlay funds to another department. HUD, the child account, receives budget authority and then obligates and outlays sums of up to the amount included in the allocation. As required by OMB Circular A-136, financial activity is in the parent account which is also accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. Consequently, these balances are not included in HUD’s consolidated financial statements as specified by OMB Circular A-136.

**B. Basis of Accounting**

The Department’s FY 2013 financial statements include the accounts and transactions of FHA, Ginnie Mae, and its grant, subsidy and loan programs.

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

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