Note 30: Restatement of the Department's Fiscal Year 2012 Financial Statements

In FY 2013, the Department restated its FY 2012 financial statements to correct material errors in the Consolidated Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources. The FY 2012 restatement was due to Ginnie Mae's financial statements prepared under Federal Accounting Standards Advisory Board (FASAB), the reclassification of GNMA's other assets to other non-credit reform loans receivable, and the establishment of prepayments from our tenant-based rental assistance program.

The Department and Ginnie Mae properly use different accounting standards, but this restatement is required to correct errors required by HUD in the preparation of the Department's consolidated financial statements. However, in the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act (FCRA). As a result, the restated financial statements are based on the Department's analysis of accounting standards not specific to FCRA. Also related to Ginnie Mae was the impact of the accounting error related to the classification of Mortgages Held for Investment and related activity as other assets which is inconsistent with the Department of Treasury's reporting requirements. Based on further discussions with the OIG and GNMA program officials, these balances were reclassified as non-credit reform loans.

The restated financial statements by HUD also reflect the accounting error of not recording net restricted assets maintained by PHAs under the Housing Choice Voucher Program, which resulted in additional assets and operating expenses reported by the Department. Summarized below are the net changes to the Department's FY 2012 financial statements to correct accounting errors not previously reported (dollars in millions):

Financial Statement	Amount
Consolidated Balance Sheet	
Total Assets	$ 8,988
Total Liabilities	(9,913)
Total Net Position	925
Consolidated Statement of Net Cost	$ 963
Consolidated Statement of Changes in Net Position	
Cumulative Results of Operations	$ 61
Unexpended Appropriations	986
Consolidated Statement of Budgetary Resources	
Unpaid Obligations, End of Year, Gross	$ 158
Unobligated Balances	(158)

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

Consolidation of a Reporting Entity with a Differing Accounting Treatment

HUD restated its FY 2012 financial statements to correct the impact of errors resulting from the improper consolidation of Ginnie Mae's financial statements. FASAB is the source of generally accepted accounting principles (GAAP) for Federal reporting entities. Ginnie Mae is a government corporation within HUD, and HUD reports Ginnie Mae on its consolidated financial statements. Ginnie Mae prepares its stand-alone financial statements in accordance with Financial Accounting Standards Board (FASB) accounting guidance. However, HUD's financial statements are presented in conformance with the FASAB's SFFAS. As such, Ginnie Mae assessed the differences between FASB and FASAB accounting requirements for purposes of reporting the financial information to HUD and identified the following differences:

Mortgage Servicing Rights (MSR) – Under FASB, servicing assets and servicing liabilities arise from situations in which Ginnie Mae assumes servicing rights on the pooled loan portfolio as a result of issuer default. FASB Accounting Standards Codification (ASC) 860-50-30-1 indicates that servicing assets and servicing liabilities should be initially measured at fair value. In accordance with ASC 860-50-35-3, Ginnie Mae has made an irrevocable election to subsequently measure MSRs at fair value at each reporting date based on the present value of estimated future net servicing income. However, under FASAB guidance, there is no servicing rights concept and the expected cash flows from revenue to be received but unearned are not considered an asset under FASAB. As a result, the MSR asset of $61 million was eliminated in the FY 2012 Consolidated Balance Sheet and a corresponding loss was recognized in the FY 2012 Statement of Net Cost.

Guarantee Asset – Under FASB guidance, Ginnie Mae receives guarantee fees from the issuers equal to six basis points (Single Family and Manufactured Housing loans) and nine basis points (Multifamily loans) on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio. These fees are paid on a monthly basis over the period that the guarantee is provided (typically 30 years of cash flows over the life of the loan). As the guarantee is issued in a standalone transaction for a premium, Ginnie Mae records a guarantee asset (representing a receivable at net present value) for the guarantee fees as the offsetting entry for the guarantee liability (see description below) in accordance with ASC 460-10-55-23a. On the other hand, FASAB does not have guidance to specifically allow for the recognition of an asset as it relates to future collection of fees tied to a guaranteed liability. A receivable is only recognized once goods and services are provided and a reasonable estimate can be made. As a result, the guarantee asset of $7 billion is written off from the FY 2012 HUD Consolidated Financial Statements.

Guarantee Liability – Under FASB guidance, Ginnie Mae recognizes a Guarantee Liability for the non-contingent aspect of its obligation. At inception of the guarantee under the MBS Program, Ginnie Mae recognizes a liability for the guarantee that it provides on MBSs issued by third-party issuers. Generally, a guarantee liability is initially measured at fair value. However, Ginnie Mae applies the practical expedient in ASC 460-10-30-2a (ASC Topic 460, Guarantees (ASC 460)), which allows the guarantee liability to be recognized at inception based on the premium received or receivable by the guarantor, provided the guarantee is issued in a standalone arm's length transaction with an unrelated party. As Ginnie Mae does not receive guarantee fees at inception of the guarantee, Ginnie Mae determines the initial measurement of the guarantee liability based on the expected present value cash flows to be received for the guarantee fee. Under FASAB guidance, there is currently not a practical expedient consideration in FASAB. Therefore, the guarantee liability of $7 billion is written off from the FY 2012 HUD Consolidated Financial Statements.

Restatement of Other Assets

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from improper classification of the non-credit reform loans to other assets. The error occurred due to the Department's misinterpretation of the United States Standard General Ledger (USSGL) requirements which provide guidance on the presentation of financial statements. As the crosswalk did not specifically note a line for a non-credit reform loans receivable and related assets, Ginnie Mae presented certain assets in other assets in FY 2012. In FY 2013, Ginnie Mae agreed to reclassify balances related to Mortgage Loans Held for Investment and related balances from other assets to other non-credit reform loans as a result of ambiguous reporting criteria as it applies to Ginnie Mae's Mortgage Backed Securities (MBS). Below is a summary of the restatement in FY 2012:

	September 30, 2012 Restatement	September 30, 2012 Original Presentation	Difference
Non-Credit Reform Loans Receivable	$ 7,634,117,316	$ -	$ 7,634,117,316
Other Assets	$ 4,135	$ 14,328,742,865	$ (14,328,738,731)

The Other Assets line item includes the Guaranty Asset and MSRs in the Original Presentation column which has been written off as previously discussed in the prior section. In FY 2012, the original presentation included Mortgage Loans Held for Investment, Foreclosed Property, Advances against Defaulted MBS Pools, and Short Sale Claims Receivable. These balances have been moved to the Non-Credit Reform Loans Receivable line item in the Restatement column. Note 8 provides detail in regards to the composition of the Non-Credit Reform line item in FY 2013.

Statement of Budgetary Resources

The Department restated its FY 2012 financial statements to correct the impact of the errors resulting from omission of unpaid undelivered obligations. The error occurred because budgetary accounting was not being performed due to limitations of Ginnie Mae's reporting system which was configured to meet private sector needs. As a Government corporation, Ginnie Mae prepares its financial statements based on FASB accounting guidance. In order to prepare budgetary data for HUD consolidated purposes, Ginnie Mae performs reconciliations of proprietary transactions to complete the Statement of Budgetary Resources (SBR) outside of their financial system. Based on the FY 2013 audit, the Office of the Inspector General (OIG) identified that unpaid, undelivered obligations were not properly accounted for within the consolidated data. As a result of Ginnie Mae's analysis of procurement data as of October 1, 2006, the amount Ginnie Mae's unpaid obligations as of September 30, 2012 increased from $333 million to $490 million. All of the differences disclosed by the Department are the result of the consolidation of Ginnie Mae's stand-alone financial statements to comply with Federal Accounting Standards Advisory Board (FASAB) reporting requirements. Ginnie Mae expects to complete the systems modifications to capture budgetary data at the transaction level in FY 2014.

Elimination of Probable Unrealized Claims from Ginnie Mae

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from the improper valuation of Ginnie Mae held defaulted FHA-insured mortgage loans. As of September 30, 2013 and 2012, Ginnie Mae held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted MBS issuers, had balances of $6 billion and $7 billion in FY 2013 and FY 2012, respectively. Ginnie Mae reports these loans as assets on their financial statements. Ginnie Mae may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, is reflected in FHA's Liability for Loan Guarantees (LLG) on the accompanying financial statements based on the default status of the insured loans. In prior years, the HUD consolidated financial statements reflected these amounts on their statements without reclassification.

In FY 2013, HUD revised the presentation of the balance sheet to conform with generally accepted accounting principles. The Department recognized probable claims by Ginnie Mae reducing the value of its assets and liabilities by the same amount. The correction of the error recognized by FHA's guarantee recorded in the LLG account reduced the amount of Mortgages Held for Investment reported as non-credit reform loans in HUD's consolidated balance sheet. The reclassification entry of $2 billion and $3 billion was made in the Department's FY 2013 and FY 2012 financial statements, respectively, and had no impact on HUD's net position Prior to the restatement of the financial statements by HUD, the Department only eliminated actual claims by Ginnie Mae totaling $8 million and $6 million for FY 2013 and FY 2012, respectively.

Recognition of NRA Balances and Impact of Cash Management Reviews

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from the omission of PIH's Net Restricted Asset (NRA) balances in HUD's consolidated balance sheet. Beginning in 2005, PHAs have maintained NRA balances as a result of funding provided by the Department under the Housing Choice Voucher Program. The NRA balances have been significantly depleted over the years due to reduced renewal funding levels and sequestration.

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

PIH has implemented a forecasting model to project the NRA balances maintained by the PHAs. The OIG has reviewed the projections by PIH and has determined that additional audit work is needed to verify the underlying data and assumptions of the model. The Department recognizes that the expenses of the program are self-reported by the PHAs and subject to audit verification by the OIG and the results of PIH's ongoing monitoring reviews. The amount of costs incurred by PHAs under the program are reported through PIH's Voucher Management System and used by program staff to adjust the amount of the NRA balances during the year. The expense recognized by the Department in the Statement of Net Cost and its impact on the net cost of operations reported on the Statement of Changes in Net Position is based on the difference between the beginning and ending NRA balances reported for FY 2013 and FY 2012, respectively. The Department contends that prior reviews of PIH activity and reliance on IPA audits provide a reasonable basis to book the estimate to accurately reflect the full costs of the PIH voucher program.

The Department has recorded a prepayment of $452 million dollars and $986 million dollars in its FY 2013 and FY 2012, respectively. In addition, the Department corrected an error in the beginning balances of $2 billion and $986 million dollars was recognized in its FY 2012 and FY 2013 financial statements, respectively, as a result of understating its equity reported on its balance sheets for the current and prior fiscal years. The reduction of the prepayment increased the amount of expenses under the voucher program by $534 million dollars and $902 million dollars in its Statement of Net Costs for FY 2013 and 2012, respectively. A prepayment of $452 million and $986 million was also recognized in the Statement of Budgetary Resources for FY 2013 and FY 2012, respectively, to account for the related asset established in the Department's Consolidated Balance Sheet. The reclassification from a paid to pre-paid status has no impact on the restated Statement of Budgetary Resources since the amounts for unobligated balances, gross outlays and unpaid obligations, end of year are not impacted under the USSGL

It is the position of the Department that the establishment of an accounts receivable is inappropriate given the substance of the transactions as interpreted by PIH and OCFO staff. Although required by PIH interim policy notices, the recognition of an accounts receivable is not warranted under Federal GAAP since the projected reductions in the NRA balances have not been remitted to the Department. Once the NRA balances are returned to HUD through direct payments or wire transfers by the PHAs, the prepayment balance in the Department's financial records will be reclassified as an accounts receivable and reduced by the cash transfers reflected in the Department's treasury's account. The recommended accounting by the Department is consistent with the substance of the underlying financial event.

The Department also acknowledges that the results of PIH's cash management reviews performed in FY 2012 are not reflected in the financial statements. As noted in the OIG's Internal Control Report, excesses and shortages identified by PIH staff have resulted in receivables and payables amounting to $29 million and $70 million respectively as of June 2013. In addition, excess and identified but not reported by the Department for the fiscal year ending 2012 resulted in receivables and payables amounting to $154 million and $19 million respectively. As a result of not completing the reviews in a timely manner, information to estimate figures as of September 30, 2013 were not available and could not be estimated at the completion of the audit.

Below are the Department's FY 2012 restated financial statements to correct accounting errors not previously reported (dollars in millions):

Balance Sheet (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
ASSETS			
Intragovernmental			
Fund Balance with Treasury	108,217	108,217	-
Investments	4,899	4,899	-
Other Assets	27	27	
Total Intragovernmental Assets	113,143	113,143	
Investments	60	60	
Accounts Receivable, Net	213	213	-
Direct Loan and Loan Guarantees, Net	8,534	8,534	-
Other Non Credit Reform Loans (Note 8)	-	4,355	(4,355)
General Property Plant and Equipment, Net	367	367	-
PIH Prepayments (Note 10)		986	(986)
Other Assets (Note 11)	14,388	59	14,329
TOTAL ASSETS	136,705	127,717	8,988
LIABILITIES			
Intragovernmental Liabilities			
Accounts Payable	15	15	
Debt	11,567	11,567	
Other Intragovernmental Liabilities	4,117	4,117	
Total Intragovernmental Liabilities	15,699	15,699	-
Accounts Payable	1,303	1,303	-
Loan Guarantee Liability (Note 7)	55,144	51,865	3,279
Debt Held by the Public	60	60	-
Federal Employee and Veteran Benefits	76	76	-
Loss Reserves	358	358	-
Other Governmental Liabilities (Note 16)	7,370	736	6,634
TOTAL LIABILITIES	80,010	70,097	9,913
Net Position			
Unexpended Appropriations - Funds From Dedicated Collections	240	240	
Unexpended Appropriations - Other Funds	52,229	53,215	(986)
Cumulative Results of Operations - Funds From Dedicated Collections (Note	17,586	17,525	61
Cumulative Results of Operations - Other Funds	(13,360)	(13,360)	
Total Net Position	56,695	57,620	(925)
Total Liabilities and Net Position	136,705	127,717	8,988

Statement of Changes in Net Position (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	23,799	23,799	-
Adjustments			
Changes in Accounting Principles			
Corrections of Errors	7	7	
Beginning Balances, As Adjusted	23,806	23,806	-
BUDGETARY FINANCING SOURCES:			
Other Adjustments			
Appropriations Used	52,343	53,246	(903)
Non-exchange Revenue	-	-	
Donations/Forfeitures of Cash & Cash Equivalents	1		
Transfers In/Out Without Reimbursement	(394)	(394)	
Other			
OTHER FINANCING SOURCES (Non-exchange):			
Transfers In/Out Without Reimbursement	(1,045)	(1,045)	
Imputed Financing	80	80	
Other	(795)	(795)	
Total Financing Sources	50,190	51,092	(902)
Net Cost of Operations	(69,770)	(70,733)	963
Net Change	(19,580)	(19,641)	61
CUMULATIVE RESULTS OF OPERATIONS	**4,226**	**4,165**	**61**
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	61,044	61,044	-
Adjustments			
Changes in Accounting Principles			
Corrections of Errors	(7)	1,881	(1,888)
Beginning Balances, As Adjusted	61,037	62,925	(1,888)
BUDGETARY FINANCING SOURCES:			
Appropriations Received	45,568	45,568	-
Appropriations Transferred In/Out			
Other Adjustments	(1,793)	(1,793)	-
Appropriations Used	(52,343)	(53,245)	902
Total Budgetary Financing Sources	(8,568)	(9,470)	902
Total Unexpended Appropriations	52,469	53,455	(986)
NET POSITION	56,695	57,620	(925)

Statement of Net Cost (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
PROGRAM COSTS			
Gross Costs (Note 20)	74,454	75,467	(1,013)
Less: Earned Revenue	(4,684)	(4,734)	50
Net Program Costs	69,770	70,733	(963)
Net Cost of Operations	69,770	70,733	(963)

Statement of Budgetary Resources (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
Budgetary Resources:			
Unobligated Balance, Brought Forward	58,190	58,040	150
Adjustments to Unobligated Balance Brought Forward, October 1	(24)	(24)	-
Unobligated balance from prior year budget authority, net	58,166	58,016	150
Recoveries of Prior Year Unpaid Obligations	1,237	1,238	(1)
Other changes in unobligated balance	(1,080)	(1,080)	-
Unobligated balance from prior year budget authority, net	58,323	58,174	149
Appropriations (discretionary and mandatory)	44,047	44,047	-
Borrowing Authority (discretionary and mandatory)	5,760	5,760	-
Spending Authority from offsetting collections	51,169	51,170	(1)
Total Budgetary Resources	159,299	159,151	148
STATUS OF BUDGETARY RESOURCES:			
Obligations Incurred			
Direct	96,436	96,437	
Reimbursable	3,955	3,964	(9)
Subtotal	100,391	100,401	(10)
Unobligated Balances			
Apportioned	22,712	22,712	
Unapportioned	36,196	36,038	158
Subtotal	58,908	58,750	158
Total Status of Budgetary Resources	159,299	159,151	148
CHANGE IN OBLIGATED BALANCE:			
Unpaid Obligations:			
Unpaid obligations, brought forward, Oct 1	58,952	59,100	(148)
Adjustments to unpaid obligations, start of year (+ or -)		-	
Obligations incurred	100,391	100,401	(10)
Outlays (gross) (-)	(106,433)	(106,433)	-
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-
Recoveries of prior year unpaid obligations (-)	(1,238)	(1,238)	-
Unpaid Obligations, end of year (gross)	51,672	51,830	(158)
Uncollected Payments:			
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(259)	(257)	(2)
Adjustments to uncollected payments, Fed sources, start of year	-	-	
Change in uncollected payments, Fed sources (+ or -)	168	168	-
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	
Uncollected payments, Fed sources, end of year (-)	(91)	(89)	(2)
Obligated Balance, start of year (+ or -)	58,693	58,843	(150)
Obligated Balance, end of year (+ or -)	51,581	51,739	(158)
BUDGET AUTHORITY, NET:			
Budget authority, gross (discretionary and mandatory)	100,978	100,978	-
Actual offsetting collections (discretionary and mandatory) (-)	(52,149)	(52,149)	-
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	168	168	-
Budget Authority, net (discretionary and mandatory) SubTotal	48,997	48,997	-
Outlays, net (discretionary and mandatory)			
Gross Outlays	106,433	106,433	-
Actual offsetting collections (discretionary and mandatory) (-)	(51,412)	(51,412)	-
	55,021	55,021	
Distributed offsetting receipts	(3,425)	(3,425)	-
Agency Outlays, net (discretionary and mandatory)	51,595	51,595	-