OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 13, 2015

TO: Chairman

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2015

As required by the Accountability of Tax Dollars Act of 2002, (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm Of Kearney & Co, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, and the fiscal year 2015 financial statements of the Federal Communications Commission (FCC).

Kearney's reports include an opinion on FCC's financial statements, a report on internal control over financial reporting, and a report on compliance and other matters, In summary, Kearney found:

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles,
- There was one repeat material weakness, originally reported in FY 2014, in internal control related to USAC's Budgetary Accounting.
- There was one repeat significant deficiency, elements of which have been repeatedly reported since 2005, related to FCC's information technology controls,
- There was one repeat instance of noncompliance with laws and regulations related to requirements of the Debt Collection Improvement Act (DCIA).

The OIG reviewed Kearney's reports and related documentation and made necessary inquires of Kearney's representatives, Kearney is wholly responsible for the attached report dated November 13, 2015 and the conclusions expressed therein, Our review, while still ongoing, disclosed no instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards, The Office of Inspector General appreciates the cooperation and courtesies to our staff and the staff of Kearney & Co. P.C., during audit.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Officer

AUDIT OF THE FEDERAL COMMUNICATIONS COMMISSION's

Financial Statements for

Fiscal Year 2015

(OCTOBER 1, 2014 – SEPTEMBER 30, 2015)

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KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Communications Commission (FCC), which comprise the consolidated balance sheet as of September 30, 2015, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year then ended, as well as the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2015, as well as its net costs, changes in net position, custodial activities, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

FY 2014 Financial Statements Audited by a Predecessor Auditor

The FCC's consolidated financial statements as of and for the year ended September 30, 2014 were audited by a predecessor auditor whose report, dated November 14, 2014, expressed an unmodified opinion on those consolidated financial statements. We were not engaged to audit, review, or apply any procedures on those consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on the FY 2014 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") sections be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the *Message from the Chairman* and the *Other Information* sections is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 13, 2015, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with provisions of applicable laws and regulations for the year ended September 30, 2015. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 13, 2015

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2015, and we have issued our report thereon dated November 13, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the FCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following sections, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

Material Weakness

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency in the FCC's internal control to be a material weakness.

I. Universal Services Fund Budgetary Accounting

As a result of the fiscal year (FY) 2014 financial statement audit, the FCC's predecessor auditor noted a material weakness in internal control relating to the Universal Services Fund's (USF) budgetary accounting. The Universal Service Administrative Company (USAC) administers the support mechanisms, which include the High Cost and Schools and Libraries programs, on behalf of the FCC. During FY 2015, we found that the FCC and USAC continued to lack sufficient reliable controls over its accounting and business processes to ensure USF's budgetary transactions were properly recorded, monitored, and reported. Through the USF High Cost program, USAC provides money to telecommunications companies to defray the cost of providing voice and broadband services to customers in high-cost areas. Through the USF Schools and Libraries program, USAC helps schools and libraries obtain affordable broadband internet. As a result of FY 2015 audit procedures, the FCC recorded material audit adjustments to the USF budgetary accounts related to the High Cost and Schools and Libraries programs. Accordingly, we consider the aggregation of the deficiencies noted to be a material weakness in internal controls surrounding USF budgetary accounting. The individual deficiencies are detailed below.

- High Cost Program Obligations – During FY 2015, the FCC implemented reforms to the High Cost program. As a result of these reforms, the FCC entered into agreements with nine companies to provide them with annual support payments of $1.5 billion for six years to defray the cost of these companies expanding broadband access in underserved areas. As of September 30, 2015, USAC calculated the amount spent during the FY against each of the obligations to determine the amount reported as an unliquidated obligation. USAC calculated the initial obligations and the unliquidated portion manually in a spreadsheet. The FCC reports the amounts calculated as unliquidated obligations by USAC on its consolidated Statement of Budgetary Resources (SBR).

  We obtained the spreadsheets used by USAC to calculate the initial obligations and the unliquidated obligations. We performed analysis to recalculate the amounts reported for all nine companies and assessed the reasonableness of the methodology used for the calculations. We noted that USAC did not include all future payments when calculating the obligation for one program participant. Additionally, we found the method used to calculate unliquidated obligations did not consider all payments made to High Cost program participants, which should decrease unliquidated obligations. Finally, we found that USAC did not reduce the undelivered orders by accrued accounts payable as of September 30th.

  USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of the obligations. Without a detailed procedure document, FCC and USAC management could not review and approve the methodology used for the calculations.

- Schools and Libraries Recoveries of Prior Year Unpaid Obligations – Eligible schools, school districts, and libraries apply to participate in the Schools and Libraries program. Once accepted into the program, USAC issues a Funding Commitment Decision Letter (FCDL). The FCDL communicates acceptance into the program and relevant conditions, including the types of services USAC will reimburse, the maximum amount eligible for reimbursement, and the date by which the invoices must be submitted (referred to as the "invoicing deadline"). When USAC issues an FCDL, accounting personnel record an obligation in USAC's accounting system. As invoices are paid, USAC's accounting personnel reduce the obligated balance. Thirty days after the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line of its consolidated SBR.

  Participants in the Schools and Libraries program can request an extension of the invoicing deadline. When a participant requests an extension prior to the original invoicing deadline, the funds should not be deobligated. When a participant requests an extension after the original invoicing deadline, USAC may still grant the extension, in which case accounting personnel must reobligate the funds.

  We tested 35 FCDLs deobligated and reobligated during FY 2015. We reviewed the supporting documentation provided and noted 17 instances where the accounting office deobligated funds that should have remained as obligations because the participant submitted a timely invoicing deadline extension request.

  During FY 2015, the FCC implemented administrative reforms to the Schools and Libraries program. As a result of these reforms, more participants requested invoicing deadline extensions in FY 2015 than in prior years. This resulted in program office processing delays. USAC accounting personnel were not aware of the processing delays; therefore, accounting personnel did not adjust the accounting entries to ensure deobligations were not recorded when an invoicing deadline extension request had been received, but not processed.

Our audit tests of USF obligations and recoveries identified material errors which required adjustment by FCC and USAC management. Without sufficient controls surrounding budgetary transactions, the FCC and USAC did not prevent, detect, and correct significant misstatements in a timely manner.

Recommendations: Kearney & Company recommends that the FCC and USAC strengthen processes and internal controls surrounding the reporting of budgetary accounting activity. Specifically,

1. Document revised accounting methods and detailed calculations in new or updated procedures when program changes arise that impact accounting procedures and related estimates. USAC and FCC management should review and approve these procedures to ensure they are consistent with accounting standards and practices elsewhere in the FCC and USAC. *[Updated]*

2. Develop more formal lines of communication between the USAC accounting personnel, the Schools and Libraries program managers, and the third-party service provider regarding administrative changes and issues in order to ensure the proper accounting treatment for the related transactions. *[Updated]*

3. Track when invoicing deadline extension requests are received and ensure that a deobligation is not processed when an invoicing deadline extension request is pending. *[New]*

Significant Deficiency

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiency in the FCC's internal control to be a significant deficiency.

I. Information Technology

FCC uses information systems to compile information for financial reporting purposes, including its core financial management and accounting system, Genesis. Genesis is accessed through the FCC's general information technology (IT) support system. In addition, because the FCC's financial statements include financial transactions relating to the USF programs and the North American Numbering Plan (NANP), the FCC relies upon the general IT support systems and specific applications utilized by the third-party organizations who administer the USF programs and NANP.

We have separately performed an evaluation of the FCC's information security program, as required by the Federal Information Security Modernization Act of 2014 (FISMA), and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could prevent or detect significant misstatements of, or corruption to, the financial data needed for the FCC's consolidated financial statements. This work was done in accordance with the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as access controls and configuration management. Other IT control areas are unique to FISCAM due to their relevance to financial management and reporting, such as segregation of duties and application controls. We performed risk-based procedures related to segregation of duties and application controls within Genesis. The control deficiencies noted during our FISMA evaluation and our financial statement audit are summarized below:

- <u>FCC IT General Control Environment</u> – We noted that the FCC had improved its overall information security program since the FY 2014 FISMA evaluation, most notably in developing policies and procedures designed to improve the security over its information and implementing major changes in its IT environment, including the relocation of the primary FCC data center, shifting additional processing to the cloud, and replacing legacy systems and infrastructure. Despite the progress made during FY 2015, we identified control weaknesses in multiple IT control areas, including Continuous Monitoring Management, Identity and Access Management, Risk Management, Plan of Action and Milestones, and Contractor Systems. These control weaknesses impacted the FCC's general IT support system. FCC management stated that these efforts have required significant resources, delaying the implementation of information security policies and procedures. While these changes provide the FCC with an opportunity to improve its information security posture, management must prioritize and devote sufficient resources to implement its information security policies and procedures and resolve weaknesses in the FCC information security program and systems.

- FCC Financial Management System – The FCC's financial management and accounting system, Genesis, is provided by an external service provider. The external service provider is responsible for maintaining a number of IT controls. However, the FCC's general IT support system is the gateway for all of its systems, including Genesis. Therefore, IT deficiencies noted in the general support system and described above may impact Genesis as well. Further, we noted additional control weaknesses impacting Genesis beyond those inherited from the FCC's general IT support system. We noted that the FY 2015 contingency planning test of Genesis failed. The FCC was unable to provide documentation of whether or not the contingency planning tests were reperformed by the external service provider. In addition, we found that the authorization to operate for Genesis expired in 2014. Our testing did not identify control deficiencies related to segregation of duties or application controls.

- Third-Party Systems and FCC Oversight – The FCC relies upon third parties to provide financial data in an accurate and timely manner. The FISMA evaluation and financial statement audit noted deficiencies in the FCC's oversight of third-party IT systems. Specifically, we found that the FCC lacks policies and procedures for overseeing third-party systems and that its system inventory listings excluded third-party-operated systems and interfaces. Additionally, we performed specific risk-based testing of IT controls at USAC and noted deficiencies relating to the adequacy of system security plans, insufficient training for individuals with significant IT security responsibilities, and account access controls. Control weaknesses in USAC's general IT support system and financial management applications may impact the accuracy and timeliness of data needed for consolidation in the FCC's financial statements.

Similar deficiencies were identified by the FCC's predecessor auditor in the FY 2014 FISMA evaluation and financial statement audit and were reported as a significant deficiency. In general, we found that the FCC had not implemented effective policies, procedures, and processes over its IT general control environment, financial management system, or third-party-operated systems. We consider the aggregation of these control deficiencies to be a significant deficiency.

Poor controls over IT security can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that

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financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that the FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2015 FISMA evaluation report includes 33 recommendations intended to improve the effectiveness of the FCC's information security program controls in the areas of Continuous Monitoring Management, Configuration Management, Identity and Access Management, Incident Response and Reporting, Risk Management, Plan of Action and Milestones, Contingency Planning, and Contractor Systems. Twenty-six of the 33 recommendations related to the FCC, while seven of the recommendations related to USAC. Twenty-three of the 26 FCC recommendations and all seven of the USAC recommendations related to FISCAM control areas.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to the FCC's management in a separate letter.

FCC's Responses to Findings

The FCC's response to the material weakness and significant deficiency identified in our audit is provided in the memorandum from management, titled Management's Reponses to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws and Regulations for Fiscal Year 2015, which is included in Agency Financial Report. The FCC's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements; accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of FCC's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF LAWS AND REGULATIONS

To the Chairman, Managing Director, and Inspector General of the Federal Communications Commission

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2015, and have issued our report thereon dated November 13, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws and regulations, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02, which is summarized as follows:

- *Debt Collection Improvement Act (DCIA) of 1998, as amended by the Digital Accountability and Transparency Act of 2014.* DCIA, as amended, requires Federal agencies to refer eligible delinquent debt (over 120 days) to the U.S. Department of the Treasury (Treasury) for debt collection action. FCC management informed us on August 12, 2015 that the FCC had not transferred all outstanding eligible debt in accordance with DCIA during fiscal year (FY) 2015. FCC management provided schedules used to track debt and debt transfers. Although the FCC had not fully complied with DCIA, we noted that the extent of debts not transferred to Treasury had decreased from $10.4 million as of September 30, 2014 to $2.6 million as of September 30, 2015.

Additionally, management communicated a potential instance of non-compliance with the *Antideficiency Act.*[1] Although our audit procedures did not identify any instances of non-compliance in FY 2015, FCC management communicated that there was a potential instance of non-compliance identified in 2011 still being researched by the FCC as of September 30, 2015.

During the audit, we noted certain additional matters involving compliance that we will report to FCC management in a separate letter.

FCC's Response to Findings

FCC management has provided its response to our findings in a separate memorandum, entitled Commission's Response to Independent Auditors' Reports, which is included in the Agency Financial Report. The FCC management's response was not subjected to the auditing procedures applied in our audit of the FCC's consolidated financial statements; accordingly, we do not express an opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of FCC's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering the FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

[1] The Antideficiency Act prohibits the FCC from making obligations or expending Federal funds in advance or in excess of an appropriation and from accepting voluntary services.

Office of the Managing Director

M E M O R A N D U M

DATE: November 13, 2015

TO: David L. Hunt, Inspector General

FROM: Jon Wilkins, Managing Director;
Mark Stephens, Chief Financial Officer
David Bray, Chief Information Officer

SUBJECT: Management's Response to Independent Auditor's Reports on Internal Control Over Financial Reporting and Compliance with Applicable Provisions of Laws and Regulations for Fiscal Year 2015

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control Over Financial Reporting* and *Independent Auditor's Report on Compliance with Applicable Provisions of Laws and Regulations*. We appreciate the efforts of your team and the new independent auditor, Kearney and Company, to work with the Federal Communications Commission (Commission or FCC) throughout the fiscal year (FY) 2015 audit process. This year's audit opinion was the result of the commitment and professionalism that both of our offices as well as the independent auditors demonstrated during the FY 2015 audit process. During the entire audit process, the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to assist the new independent auditors in developing their understanding of the function and operations of the Commission so as to facilitate an efficient audit process.

We are pleased that, for the tenth straight year, the independent auditor provided an unmodified opinion and found that the Commission's consolidated financial statements for FY 2015 present fairly, in all material respects, the financial position of the Commission as of September 30, 2015. Ten straight years of clean audit opinions is an unprecedented accomplishment for the Commission. Throughout this entire period of time, we have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, work remains here at the Commission. The FY 2015 audit report points out one material weakness, one significant deficiency, and one instance of non-compliance with laws and regulations. The auditor's primary areas of concern relate to Universal Service Fund (USF) budgetary accounting, information technology controls, and non-compliance with the Debt Collection Improvement Act (DCIA). We concur with the recommendations made by the independent auditors in their reports.

First, we would like to address the material weakness. In furtherance of a finding that arose in FY 2014, the independent auditor identified a continuing material weakness in the control environment over USF budgetary accounting. The material weakness resulted from Universal Service Administrative Company's (USAC) budgetary accounting activities for USF. The auditors noted for the High Cost Program that USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of those obligations. The auditors also noted for the Schools and Libraries Program that weaknesses exist in the formal lines of communication between the USAC accounting team, the Schools and Libraries program managers, and the third party service provider which resulted in improper accounting transactions.

The accounting errors that the auditors noted above were corrected by USAC and the FCC and do not affect the Commission's FY 2015 financial statements. However, the auditors noted that corrections need to be made to USAC's processes and internal controls to avoid these types of errors from recurring in the future. The Commission will work with USAC to ensure that USAC takes the proper corrective action to resolve these recommendations and strengthen its internal controls.

Second, the Commission is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2015 to make improvements and to resolve audit findings from previous year audits. The auditors recognized the FCC has improved its overall information security program and its compliance with the Federal Information Security Management Act (FISMA) and related guidance. During FY 2015, the FCC's Chief Information Officer led a team focused on improving the Commission's security posture, which resulted in a 44% reduction in FISMA findings versus the previous fiscal year. Going forward in FY 2016, assuming the necessary funds are available, the Commission will continue to address all weaknesses in its information systems and data stores and expects that upgrades in its systems, along with a strengthened staff, will eliminate a considerable number of the remaining findings. As the organization continues to improve, upgrade and replace processes, software and systems, these actions will further strengthen the Commission's information security program.

Furthermore, the auditors noted one instance of non-compliance related to the Debt Collection Improvement Act. While the Commission has not fully complied with the Debt Collection Improvement Act, the auditor's report pointed out that the extent of debts not transferred to Treasury has decreased from $10.4 million as of September 30, 2014 to $2.6 million as of September 30, 2015. The Commission has a plan in place to complete the transfer of the remaining eligible debt to the Treasury in FY 2016. With these corrective actions already in motion, the FCC hopes that it will be able to have this non-compliance issue closed during the FY 2016 financial audit cycle.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2016 to resolve the FY 2015 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Jon Wilkins, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

Dr. David Bray, Chief Information Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET
As of September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 11,659,650	$ 537,984
Investments (Note 5)	8,136,062	7,685,783
Accounts receivable (Note 6)	21,152	711
Other	3,719	1,063
Total intragovernmental	19,820,583	8,225,541
Cash and other monetary assets (Note 4)	131,796	181,519
Accounts receivable, net (Note 6)	4,184,884	842,736
Direct loans receivable, net	3,234	-
General property, plant, and equipment, net	28,658	34,443
Other	13,024	13,024
Total assets	$ 24,182,179	$ 9,297,263
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 548	$ 1,575
Other (Note 8)		
Custodial	540,289	325,448
Other	8,477	4,831
Total other	548,766	330,279
Total intragovernmental	549,314	331,854
Accounts payable	230,818	115,845
Other (Note 8)		
Deferred revenue	14,314,772	56,520
Prepaid contributions	48,290	47,625
Accrued liabilities for Universal Service	557,796	670,755
Other	32,142	33,338
Total other	14,953,000	808,238
Total liabilities	$ 15,733,132	$ 1,255,937
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - All Other Funds	$ 2,868	$ 3,059
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,280,330	7,880,477
Cumulative results of operations - All Other Funds	165,849	157,790
Total net position	$ 8,449,047	$ 8,041,326
Total liabilities and net position	$ 24,182,179	$ 9,297,263

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Program costs (Note 11):		
Connect America:		
Total Gross Cost	$ 561,775	$ 46,380
Maximize Benefits of Spectrum:		
Total Gross Cost	100,119	110,562
Protect and Empower Consumers:		
Total Gross Cost	50,790	49,259
Promote Innovation, Investment, and America's Global Competitiveness:		
Total Gross Cost	11,343	10,341
Promote Competition:		
Total Gross Cost	7,803,173	8,884,501
Public Safety and Homeland Security:		
Total Gross Cost	46,681	43,101
Advance Key National Purposes:		
Total Gross Cost	1,005,997	78,101
Operational Excellence:		
Total Gross Cost	73,662	74,932
Total Program Costs	$ 9,653,540	$ 9,297,177
Less: earned revenues not attributed to programs	(483,350)	(473,168)
Net cost of operations	$ 9,170,190	$ 8,824,009

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015			FY 2014		
	Funds from Dedicated Collections (Note 10)	**All Other Funds**	**Total**	**Funds from Dedicated Collections** (Note 10)	**All Other Funds**	**Total**
Cumulative Results of Operations:						
Beginning Balances	$ 7,880,477	$ 157,790	$ 8,038,267	$ 6,884,853	$ 161,389	$ 7,046,242
Budgetary Financing Sources:						
Appropriations used	-	191	191	-	661	661
Non-exchange revenue	9,587,271	-	9,587,271	9,821,685	-	9,821,685
Other	51	-	51	1	-	1
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	(12)	(12)	-	-	-
Imputed financing	-	13,418	13,418	-	16,195	16,195
Other	-	(22,817)	(22,817)	-	(22,508)	(22,508)
Total Financing Sources	9,587,322	(9,220)	9,578,102	9,821,686	(5,652)	9,816,034
Net Cost of Operations	9,187,469	(17,279)	9,170,190	8,826,062	(2,053)	8,824,009
Net Change	399,853	8,059	407,912	995,624	(3,599)	992,025
Cumulative Results of Operations	8,280,330	165,849	8,446,179	7,880,477	157,790	8,038,267
Unexpended Appropriations:						
Beginning Balances	-	3,059	3,059	-	3,394	3,394
Budgetary Financing Sources:						
Appropriations received	-	-	-	-	351	351
Other adjustments	-	-	-	-	(25)	(25)
Appropriations used	-	(191)	(191)	-	(661)	(661)
Total Budgetary Financing Sources	-	(191)	(191)	-	(335)	(335)
Total Unexpended Appropriations	-	2,868	2,868	-	3,059	3,059
Net Position	$ 8,280,330	$ 168,717	$ 8,449,047	$ 7,880,477	$ 160,849	$ 8,041,326

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 3,297,231	$ 3,367,269
Recoveries of prior year unpaid obligations	1,237,021	461,521
Other changes in unobligated balance (+ or -)	(1)	(3,618)
Unobligated balance from prior year budget authority, net	4,534,251	3,825,172
Appropriations (discretionary and mandatory)	9,610,451	9,808,739
Borrowing authority (discretionary and mandatory)	-	3,616
Spending authority from offsetting collections (discretionary and mandatory)	464,266	450,637
Total budgetary resources	$ 14,608,968	$ 14,088,164
Status of Budgetary Resources:		
Obligations incurred (Note 13)	$ 18,381,809	$ 10,790,933
Unobligated balance, end of year:		
Apportioned	24,057	22,325
Exempt from apportionment (Note 1 Q.)	(3,927,155)	3,074,850
Unapportioned	130,257	200,056
Total unobligated balance, end of year	(3,772,841)	3,297,231
Total status of budgetary resources	$ 14,608,968	$ 14,088,164
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 4,635,566	$ 4,052,196
Obligations incurred	18,381,809	10,790,933
Outlays (gross) (-)	(9,658,327)	(9,746,042)
Recoveries of prior year unpaid obligations (-)	(1,237,021)	(461,521)
Unpaid obligations, end of year	12,122,027	4,635,566
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,270)	(4,418)
Change in uncollected pymts, Fed sources (+ or -)	2,020	148
Uncollected pymts, Fed sources, end of year (-)	(2,250)	(4,270)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$ 4,631,296	$ 4,047,778
Obligated balance, end of year (net)	$ 12,119,777	$ 4,631,296
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 10,074,717	$ 10,262,992
Actual offsetting collections (discretionary and mandatory) (-)	(473,956)	(459,857)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	2,020	148
Budget Authority, net (total) (discretionary and mandatory)	$ 9,602,781	$ 9,803,283
Outlays, gross (discretionary and mandatory)	$ 9,658,327	$ 9,746,042
Actual offsetting collections (discretionary and mandatory) (-)	(473,956)	(459,857)
Outlays, net (total) (discretionary and mandatory)	9,184,371	9,286,185
Distributed offsetting receipts (-)	(75,478)	(67,396)
Agency outlays, net (discretionary and mandatory)	$ 9,108,893	$ 9,218,789

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 27,094,686	$ 1,568,559
Fines and Penalties	113,352	42,099
Total Cash Collections	27,208,038	1,610,658
Accrual Adjustments (+/-)		
Spectrum Auctions (Note 6)	3,334,631	-
Fines and Penalties	19,316	(4,855)
Total Accrual Adjustments	3,353,947	(4,855)
Total Custodial Revenue (Note 18)	30,561,985	1,605,803
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(113,352)	(42,099)
Spectrum Relocation Fund (OMB)	(11,499,988)	-
Public Safety Trust Fund (NTIA)	(18,627,804)	(1,221,000)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(214,841)	(244,004)
Retained by the Reporting Entity	(106,000)	(98,700)
Total Disposition of Collections	(30,561,985)	(1,605,803)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands unless otherwise stated)

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Communications Commission (Commission) is an independent United States Government agency, established by the Communications Act of 1934 (Act), as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. Five commissioners direct the Commission; they are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term or serving in holdover status.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF reports the results of the four Universal Service support mechanisms (established pursuant to section 254 of the Act, as amended) and the results of the Telecommunications Relay Service (TRS) Fund (established by the Americans with Disabilities Act of 1990, Title IV). The four universal service support mechanisms are: High Cost, Lifeline, Rural Health Care, and School and Libraries. Section 501 of Division E of the Consolidated and Further Continuing Appropriations Act, 2015, P.L. 113-235, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, to extend the four universal service support mechanisms' exemption from the application of the provisions of the Antideficiency Act until December 31, 2016. Accordingly, these funds are not subject to apportionment by OMB. The TRS Fund is not exempt from the Antideficiency Act and must be apportioned by OMB before funds are available for use. The NANP reports the results of billing and collection activities conducted to support the NANP (47 U.S.C. § 251(e); 47 C.F.R. § 52.16, 52.17, 52.32, and 52.33). NANP is included in the Commission's consolidated Balance Sheet, Statement of Net Cost, and Changes in Net Position since it meets the indicative criteria of Statement of Federal Financial Accounting Concepts (SFFAS) No. 2, Entity and Display. NANP is not subject to budgetary accounting and Congress has not appropriated funds for NANP in an appropriation bill, additionally these funds are not included in the President's Budget.

B. Basis of Accounting and Presentation

The consolidated and combined financial statements (financial statements) have been prepared from the accounting records of the Commission and its components, in conformity with GAAP and the form and content for Federal entity financial statements specified by the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Fund Balance with Treasury

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general, revolving, and deposit funds. The Commission may use the general and revolving funds to finance expenses, depending on budgetary availability. The deposit accounts are used to hold funds temporarily until they can be properly disbursed or distributed.

D. Cash and Other Monetary Assets

Cash and Other Monetary Assets represent third party deposits and demand deposits at several commercial banks which are maintained by Universal Service Administrative Company (USAC), Rolka Loube, LLC (RL), and Welch LLP, serving as administrators and/or billing and collection agents. Demand deposits bear the names of those entities, as well as the Commission or the fund for which they serve as administrator and/or billing and collection agent. Cash on deposit is collateralized by the Federal Reserve.

E. Investments

Investments are reported at their acquisition cost, adjusted for amortization of premiums or discounts using the Effective Interest Method. All investments are in Treasury securities.

F. Accounts Receivable, Net

Accounts Receivable consists of claims made for payment from the public and other Federal entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

The Commission's portion of the allowance for doubtful accounts is determined by applying predetermined percentages against the respective date the receivable was established. An additional analysis of higher dollar value receivables is also performed on individual account balances.

The USF portion of the allowance is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

G. Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The capitalization threshold is $100 for PP&E and $200 for internally developed software with an estimated useful life of two years or more. There is no capitalization of bulk purchases of similar items. PP&E is depreciated on a straight-line basis over the estimated useful lives of the items.

Note 1 - Summary of Significant Accounting Policies (continued)

G. Property, Plant and Equipment (continued)

The following chart summarizes the PP&E classifications with related estimated useful lives:

PP&E Classification	Estimated Useful Lives (years)
Building	40
Non-Computer Equipment	7
Computer & Vehicle Equipment	5
Software	3

Land, including permanent improvements, and software in development are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Leasehold improvement, which includes all cost incurred during the design and construction phase of the improvement, are either amortized over the remaining life of the lease or the useful life of the improvement, whichever is shorter.

H. Other Assets

Other Assets with agencies represent advance payments for intragovernmental agreements. Other Assets with the public represent the balance of transfers less expenses made by the USF to USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred and a balance typically remains in this account for future expenses.

I. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. As a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Lifeline, and TRS programs. The obligations are recognized for subsidies related to certain programs, including: the Mobility Fund, the CAF Phase II, and Rural Broadband Experiment in High Cost. The Commission does not accrue for payments under the Schools & Libraries or Rural Health Care programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

J. Deferred Revenue

The Commission collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a “prepared to grant” or “grant” public notice is issued. In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

Note 1 - Summary of Significant Accounting Policies (continued)

J. Deferred Revenue (continued)

The USF and NANP collect contributions from U.S., Canadian, and Caribbean carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

K. Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portion of future benefits earned by Federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent of basic pay. Under all FERS plans, the Commission contributes the employer's matching share for Social Security. All employees are eligible to contribute to the Thrift Saving Plan (TSP) which is a defined contribution retirement savings and investment plan. For those employees covered by the FERS plans, a TSP account is automatically established to which the commission is required to contribute 1% of gross pay and match dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. No government contributions are made to the TSP accounts established by CSRS employees. Most employees hired after December 31, 1983, are covered by the FERS plans.

The OPM reports on CSRS, FERS, FERS-RAE, and FERS-FRAE assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

The actuarial liability for future workers' compensation benefits payable includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payment. The Department of Labor (DOL) determines no actuarial liability for the Commission due to the immateriality.

The unfunded Federal Employees' Compensation Act (FECA) liability covers compensation and medical benefits for work related injury. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by DOL.

Note 1 - Summary of Significant Accounting Policies (continued)

L. Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 (Act)
directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals: Connect America; Maximize Benefits of Spectrum; Protect and Empower Consumers; Promote Innovation, Investment, and America's Global Competitiveness; Promote Competition; Public Safety and Homeland Security; Advance Key National Purposes; and Operational Excellence. These fees were established by congressional authority, and consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The regulatory fee levels of $339,844 for FY 2015 and FY 2014 were achieved. The Commission collected $7,670 above the required regulatory level in FY 2015 and $8,720 in FY 2014. The cumulative amount collected above the required annual regulatory level is $98,367 at September 30, 2015. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to either the Treasury or the appropriate agency required by Public Law, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were appropriated at $106,000 in FY 2015 and $98,700 in FY 2014.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined in the market place at the time of auction. The Commission recognized total custodial revenue related to spectrum auctions, net of accrual adjustments, of $30,429,317 in FY 2015 and $1,568,559 in FY 2014. In FY 2015, the Commission transferred recognized custodial revenue of $11,499,988 to the Spectrum Relocation Fund which is administered by the OMB and $18,627,804 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA). In FY 2014, the Commission transferred recognized custodial revenue of $1,221,000 to the Public Safety Trust Fund that is managed by the NTIA.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services over which the Commission has jurisdiction. Section 8(b) of the Act, as amended, requires the Commission to review and amend its application fees every two years. The amended fees (Schedule of Application Fees 14 U.S.C. § 1.1102 *et seq.*) reflect the net change in the Consumer Price Index for all Urban Consumers calculated over a specific period of time, and the Commission's cost of processing applications and associated filings. Application fees are deposited in the Treasury and are not available for the Commission's use. Application fee revenue totaled $19,474 in FY 2015 and $22,509 in FY 2014.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $2,711 in FY 2015 and $2,782 in FY 2014.

Allocation of Exchange Revenues

The Commission reports the entire balance of exchange revenue on line "Less: earned revenues not attributed to programs" since there is no direct relationship between earned revenues and specific programs.

USF (Financing Source) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent dedicated collections and are accounted for as a budgetary financing source. Total contributions of $9,539,289 and $9,783,416 were received in FY 2015 and FY 2014, respectively.

Appropriations (Financing Source) – The Commission receives a Salaries and Expense appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. Since FY 2014, Congress authorized the Commission to retain its appropriation as available until expended. The no-year appropriations are $339,844 for FY 2015 and FY 2014. Regulatory fee collections fully fund the no-year appropriations for FY 2015 and FY 2014.

Subsidy Estimates and Reestimates (Financing Source) – The FCRA of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. As required, the Commission coordinates with OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The last active loan matured in April 2007 and the Commission wrote off all remaining loans in FY 2013. As result, there was no material activity related to direct loans in FY 2015 and FY 2014, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy reestimate was completed in September 30, 2015; OMB waived the need to perform a subsidy reestimate in FY 2014. The FY 2015 reestimate resulted in a downward adjustment, including interest of $109 on the reestimate, of $3,343 reported in FY 2015 financial statements. In FY 2015 there was no appropriation; in FY 2014 the Commission received an appropriation of $351 for the FY 2013 subsidy reestimate, of which $25 was permanently sequestered and the remainder was available until used.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Reprogramming

In FY 2015, the Commission received approvals to reprogram $8,750 of prior year de-obligations to fund information technology investments. In FY 2014, the Commission did not reprogram any funds.

O. Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and Billing and Collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are USAC, which is both the administrator and B&C agent for the four USF support mechanisms; RL, which is both the administrator and B&C agent for TRS; Neustar which is the administrator for NANP; and Welch LLP which is the B&C agent for NANP.

The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances for the fiscal years ended September 30, 2015 and 2014 are listed below:

Administrative Fees:

	USF	TRS	NANP	Total
FY 2015	$ 130,339	$ 4,221	$ 5,769	$ 140,329
FY 2014	$ 116,771	$ 1,302	$ 6,205	$ 124,278

P. Net Position

Net Position is the residual difference between assets and liabilities, and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains.

Q. Connect America Fund Phase II

The Commission took significant steps towards initiating Phase II of the Connect America Fund (CAF). Nine carriers accepted CAF Phase II support in FY 2015. This resulted in new obligations exceeded available budgetary resources. However, the four universal service support mechanisms are exempt by Congress through December 31, 2016, and are not subject to an apportionment by OMB, refer to Note 1 A.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Intragovernmental:		
Fund Balance with Treasury	$ 11,434,117	$ 322,815
Accounts Receivable	21,069	377
Total Intragovernmental	11,455,186	323,192
Cash and Other Monetary Assets	-	17
Accounts Receivable, Net	3,369,326	14,914
Total Non-entity Assets	14,824,512	338,123
Total Entity Assets	9,357,667	8,959,140
Total Assets	$ 24,182,179	$ 9,297,263

Non-entity Fund Balance with Treasury (FBWT) primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $11,433,110 in FY 2015 and $321,851 in FY 2014. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

Note 3 - Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2015 and 2014:

FY 2015	General Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 23,920	$ 137	$ -	$ 24,057
Unavailable	123,660	3,207	-	126,867
Obligated Balance not yet Disbursed	74,609	-	-	74,609
Non-Budgetary FBWT	-	-	11,434,117	11,434,117
Total	$ 222,189	$ 3,344	$ 11,434,117	$ 11,659,650
FY 2014				
Unobligated Balance				
Available	$ 23,116	$ 3,230	$ -	$ 26,346
Unavailable	109,934	-	-	109,934
Obligated Balance not yet Disbursed	78,889	-	-	78,889
Non-Budgetary FBWT	-	-	322,815	322,815
Total	$ 211,939	$ 3,230	$ 322,815	$ 537,984

Note 3 - Fund Balance with Treasury (continued)

General Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the credit reform program account, and the no-year accounts used to carry over spectrum auction funds, offsetting collections, excess regulatory fees, and the Office of Inspector General USF funds.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission's spectrum auction loan program.

Deposit Funds – Includes monies being held for spectrum auctions, ITS, and regulatory fees. Deposit funds are non-budgetary and are not available for use by the Commission unless they are properly identified or reclassified as Commission funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury.

Note 4 – Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Cash and Other Monetary Assets	$ 131,796	$ 181,519

USF and NANP contributions and upfront payments made pursuant to spectrum auction activities are the sources of funds for these balances. Upfront payments, unless refunded, are held until 45 days after the close of a given auction and then transferred to the Commission's Treasury account. Interest earned on USF and NANP contributions is reinvested. Interest earned on upfront payments is transferred to the Treasury's General Fund.

In FY 2015, Cash and Other Monetary Assets included $127,061 in USF contributions and related accrued interest being held for distribution, $4,735 in NANP deposits and related accrued interest, and no upfront spectrum auctions payments.

In FY 2014, Cash and Other Monetary Assets included $177,834 in USF contributions and related accrued interest being held for distribution, $3,668 in NANP deposits and related accrued interest, and $17 in upfront spectrum auctions payments.

Note 5 - Investments

The following summarizes Investments as of September 30, 2015 and 2014:

FY 2015	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 2,132,089	EI	$ 59	$ -	$ 2,132,148		$ 2,132,338
Treasury Notes	6,036,522	EI	(43,220)	10,612	6,003,914	51	6,010,208
Total	$ 8,168,611		$ (43,161)	$ 10,612	$ 8,136,062	$ 51	$ 8,142,546
FY 2014							
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 728,577	EI	$ 12	$ -	$ 728,589	$ -	$ 728,586
Treasury Notes	6,974,719	EI	(26,155)	8,630	6,957,194	-	6,951,496
Total	$ 7,703,296		$ (26,143)	$ 8,630	$ 7,685,783	$ -	$ 7,680,082

EI - Effective Interest Method

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; however in FY 2015, USF sold $300,000 worth of investments before maturity to meet cash requirement for CAF Phase II support. This early redemption resulted in a total gain of $51. All investments are held by USF and are also recognized as part of Funds from Dedicated Collections in Note 10.

The cash receipts collected from the public for the USF are used to purchase federal securities. Treasury securities are an asset to the USF and a liability to the Treasury. Because the USF and the Treasury are both part of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the USF with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the USF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2015 and 2014:

	Intragovernmental	Public	Total
FY 2015			
Gross Accounts Receivable	$ 21,152	$ 4,748,754	$ 4,769,906
Allowance for Doubtful Accounts	-	(563,870)	(563,870)
Accounts Receivable, Net	$ 21,152	$ 4,184,884	$ 4,206,036
FY 2014			
Gross Accounts Receivable	$ 711	$ 1,445,662	$ 1,446,373
Allowance for Doubtful Accounts	-	(602,926)	(602,926)
Accounts Receivable, Net	$ 711	$ 842,736	$ 843,447

The following summarizes accounts receivable by type as of September 30, 2015 and 2014:

	FY 2015			FY 2014		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,094,405	$ (260,406)	$ 833,999	$ 1,219,144	$ (403,950)	$ 815,194
COMAD - Schools and Libraries	227,682	(225,592)	2,090	133,391	(121,119)	12,272
Regulatory Fees	32,078	(24,893)	7,185	35,644	(28,901)	6,743
Spectrum Auction	3,355,959	(21,329)	3,334,630	21,081	(21,081)	-
Civil Monetary Penalties	45,438	(22,303)	23,135	26,247	(19,106)	7,141
Other	14,344	(9,347)	4,997	10,866	(8,769)	2,097
Total	$ 4,769,906	$ (563,870)	$ 4,206,036	$ 1,446,373	$ (602,926)	$ 843,447

The Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries have a 99% allowance in FY 2015 and 91% allowance in FY 2014.

The Spectrum Auction Accounts Receivable relates primarily to amounts due from two companies, SNR Wireless License Co, LLC (SNR) and Northstar Wireless, LLC (Northstar). SNR and Northstar were the winning bidders for a total of 702 licenses in Auction 97, which concluded in January 2015. Although their gross winning bids totaled $13,327,424, they each claimed to be small business entities who, under the Commission's rules, would be eligible for bidding credits of 25 percent against their gross bid amounts. Accordingly, based on such claim, after the auction concluded they were assessed only their net bid amount plus an initial bid withdrawal payment amount related to certain bids withdrawn by SNR during the auction ($10,003,891). As is standard practice, following the auction and the collection of the net winning bid amount, the Commission reviewed whether the companies were in fact eligible for the claimed credit.

Following a review of their eligibility showings, the Commission concluded that the DISH Network Corporation (DISH) has a controlling interest in and is an affiliate of SNR and Northstar and that DISH's

Note 6 - Accounts Receivable, Net (continued)

Revenues therefore were required to be attributed to SNR and Northstar. Accordingly, SNR and Northstar were found to be ineligible for the small business bidding credits applied in Auction 97. The Commission released an order on August 18, 2015 formally communicating each company's ineligibility for bidding credits and ordering payment for the full cost of licenses won during Auction 97. An accounts receivable was established for the full amount of the denied bidding credit, $3,331,856, plus an additional bid withdrawal payment of $2,774 owed by SNR. See Note 20 on subsequent events for a discussion of significant transactions which occurred after the financial statement date related to this accounts receivable.

Note 7 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Intragovernmental:		
FECA Liability	$ 566	$ 521
Unemployment Liability	11	42
GSA Real Estate Taxes	2,673	2,184
Other:		
Unfunded Leave	19,451	20,427
Accrued Liabilities for Universal Service	557,796	670,755
Total liabilities not covered by budgetary resources	580,497	693,929
Total liabilities covered by budgetary resources	15,152,635	562,008
Total Liabilities	$ 15,733,132	$ 1,255,937

Liabilities not covered by budgetary resources are liabilities incurred that are not covered by realized budgetary resources as of the Balance Sheet date.

Note 8 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2015 and 2014:

FY 2015	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 540,289	$ 540,289
Other	-	8,477	8,477
Total Intragovernmental	$ -	$ 548,766	$ 548,766
Deferred Revenue	$ 34,768	$ 14,280,004	$ 14,314,772
Prepaid Contributions	-	48,290	48,290
Accrued Liabilities for Universal Service	-	557,796	557,796
Other	-	32,142	32,142
Total Other	$ 34,768	$ 14,918,232	$ 14,953,000

FY 2014	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 325,448	$ 325,448
Other	-	4,831	4,831
Total Intragovernmental	$ -	$ 330,279	$ 330,279
Deferred Revenue	$ 35,763	$ 20,757	$ 56,520
Prepaid Contributions	-	47,625	47,625
Accrued Liabilities for Universal Service	-	670,755	670,755
Other	-	33,338	33,338
Total Other	$ 35,763	$ 772,475	$ 808,238

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, ITS processing fees, and interest revenue on auction deposits. Deferred revenue represents regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the Commission.

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Lifeline, and TRS programs. The obligation for these subsidies is not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, and upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined.

Note 9 - Commitments and Contingencies

The Commission is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of USF funds from its support mechanisms which might result in future proceedings or actions. Similarly the Commission, RL, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

The Commission has examined its obligations related to cancelled authority and believes it has no outstanding commitments requiring future resources other than those as disclosed in Note 7. In addition, there are certain operating leases that may contain provisions regarding contract termination costs upon early contract termination. In the opinion of Commission management, early contract termination will not materially affect the Commission's financial statements.

As of September 30, 2015, any legal liabilities that are probable are disclosed as liabilities on the Balance Sheet. There is one case with a reasonable possibility of an unfavorable outcome, but the amount cannot be currently estimated. We have determined that the resolution of this reportable contingent liability should not have a material effect on the financial statements.

Note 10 – Funds from Dedicated Collections

U.S. telecommunications companies are obligated to make contributions to the USF and the TRS Fund. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions collected under the USF Program as non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2015 and 2014:

Balance Sheet	**FY 2015**	**FY 2014**
Assets:		
Investments	$ 8,136,062	$ 7,685,783
Cash and other monetary assets	127,061	177,834
Accounts receivable, net	837,145	828,493
General property, plant, and equipment, net	6,251	4,988
Other assets	13,024	13,024
Total assets	$ 9,119,543	$ 8,710,122
Liabilities:		
Accounts payable	$ 218,845	$ 105,080
Deferred revenue	14,176	6,224
Prepaid contributions	48,258	47,586
Accrued liabilities	557,796	670,755
Other	138	
Total liabilities	$ 839,213	$ 829,645
Cumulative results of operations	$ 8,280,330	$ 7,880,477
Total liabilities and net position	$ 9,119,543	$ 8,710,122
Statement of Net Cost		
Net cost of operations	$ 9,187,469	$ 8,826,062
Statement of Changes in Net Position		
Net position beginning of period	$ 7,880,477	$ 6,884,853
Non-exchange revenue	9,587,271	9,821,685
Other financing sources	51	1
Net cost of operations	9,187,469	8,826,062
Change in net position	399,853	995,624
Net position end of period	$ 8,280,330	$ 7,880,477

Note 11 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs primarily represent goods and services purchased by the Commission from other Federal agencies.

FY 2015

Program Costs	Intragovernmental	Public	Total
Connect America	$ 11,815	$ 549,960	$ 561,775
Maximize Benefits of Spectrum	25,831	74,288	100,119
Protect and Empower Consumers	13,104	37,686	50,790
Promote Innovation, Investment, and America's Global Competitiveness	2,927	8,416	11,343
Promote Competition	26,694	7,776,479	7,803,173
Public Safety and Homeland Security	12,044	34,637	46,681
Advance Key National Purposes	7,318	998,679	1,005,997
Operational Excellence	19,005	54,657	73,662
Total	$ 118,738	$ 9,534,802	$ 9,653,540
Total Earned Revenue	$ 2,826	$ 480,524	$ 483,350

FY 2014

Program Costs	Intragovernmental	Public	Total
Connect America	$ 10,990	$ 35,390	$ 46,380
Maximize Benefits of Spectrum	28,356	82,206	110,562
Protect and Empower Consumers	12,634	36,625	49,259
Promote Innovation, Investment, and America's Global Competitiveness	2,652	7,689	10,341
Promote Competition	26,819	8,857,682	8,884,501
Public Safety and Homeland Security	11,054	32,047	43,101
Advance Key National Purposes	7,505	70,596	78,101
Operational Excellence	19,218	55,714	74,932
Total	$ 119,228	$ 9,177,949	$ 9,297,177
Total Earned Revenue	$ 2,964	$ 470,204	$ 473,168

Note 12 – Available Borrowing Authority, End of the Period

Pursuant to Public Law 112-96 Sec. 6403 (d) (3), the FCC is authorized to borrow from Treasury up to $1,000,000 to fund payment of relocation costs for Broadcast TV Spectrum Incentive Auction. As of September 30, 2015, no money has been drawn from Treasury.

Note 13 - Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

The following summarizes Apportionment Categories of Obligations Incurred for the years ended September 30, 2015 and 2014:

	FY 2015	FY 2014
Direct:		
Category B	1,378,673	1,370,430
Exempt from Apportionment	17,002,014	9,417,463
Total Direct	18,380,687	10,787,893
Reimbursable:		
Category B	1,122	3,040
Total Obligations Incurred	$ 18,381,809	$ 10,790,933

Category B - Apportioned by Purpose

Note 14 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $11,895,800 as of September 30, 2015 and $4,518,678 as of September 30, 2014.

Note 15 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs and subsidy costs incurred under credit reform programs. The Commission also has a permanent indefinite appropriation available to fund the costs of developing and implementing its competitive auction program.

Pursuant to 47 U.S.C §§ 254 and 225 the FCC has a permanent indefinite appropriation to fund its universal service programs, including Telecommunications Relay Service Fund. These programs operate by collecting mandatory contributions from telecommunications carriers providing interstate telecommunications services, and from other providers of interstate telecommunications required to contribute if the public interest so requires. These contributions are accounted for federal budgetary purposes as a special fund known as the Universal Service Fund.

Note 15 – Permanent Indefinite Appropriations (continued)

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Pursuant to 47 U.S.C § 309(j)(8)(B), the FCC has a permanent indefinite appropriation to retain from the proceeds of its spectrum auctions such sums as may be necessary for the costs of developing and implementing the competitive auction program. These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C § 309(j)(8)(B), for FY 2015 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $106,000.

Note 16 – Legal Arrangements Affecting Use of Unobligated Balances

Pursuant to Public Laws, offsetting collections received in excess of $339,844 in FY 2015 and in FY 2014 are temporarily precluded from obligation. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008. For more information, refer to Note 1 M.

Note 17 - Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2014 and the amounts presented in the 2016 President's Budget. The FY 2017 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2015 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http:/www.whitehouse.gov/omb.

Note 18 – Custodial Revenues

In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues related to miscellaneous receipts and Fines and Forfeitures to the General Fund. Additionally, there is exchange revenue reported on the Statement of Custodial Activity associated with the Radio Spectrum Auction Proceeds.

Note 19 – Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)

As of September 30, 2015 and 2014:

	FY 2015	FY 2014
Budgetary Resources Obligated:		
Obligations incurred	$ 18,381,809	$ 10,790,933
Less: spending authority from offsetting collections and recoveries	1,701,287	921,230
Obligations net of offsetting collections and recoveries	16,680,522	9,869,703
Less: offsetting receipts	75,478	67,396
Net obligations	16,605,044	9,802,307
Other Resources	(9,360)	(6,312)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	(7,377,122)	(600,762)
Resources that fund expenses recognized in prior periods	(960)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	75,591	67,899
Resources that finance the acquisition of assets	(7,820)	(6,170)
Other	(12,229)	(38,975)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(1,004)	(265)
Upward/Downward reestimates of credit subsidy (+/-)	(3,343)	-
Increase in exchange revenue receivable from the public	(1,000)	5,945
Depreciation and amortization	14,574	20,029
Other (+/-)	(112,181)	(419,687)
Net Cost of Operations	$ 9,170,190	$ 8,824,009

Note 20 – Subsequent Events

As stated in Note 6, on August 18, 2015, the Commission found that SNR and Northstar are not small businesses eligible for a 25 percent bidding credit and ordered them to pay the amount of the bidding credit, $3,331,856, plus an additional payment of $2,774 related to certain bids withdrawn by SNR during the auction. Payment of that amount would satisfy the full amount of SNR and Northstar's gross bid amounts and the SNR withdrawal payment and therefore would have entitled them to receive all of the 702 licenses that they won in Auction 97. Instead, on October 1, 2015, SNR and Northstar elected to pay the full gross bid amount for only 505 of the licenses and selectively defaulted on 197 of 702 licenses won in Auction 97. By selectively defaulting, SNR and Northstar incurred an interim default payment of $515,555. The interim default payment was assessed by the Commission based on 15 percent of the gross winning bid price for the 197 licenses they declined.

SNR and Northstar paid the Commission the gross bid amount of the 505 licenses, the interim default payment, and SNR's bid withdrawal payment by using funds on deposit with the Commission and by making an additional payment of $413,151 On October 27, 2015, the Commission issued an aggregate of 505 licenses to SNR and Northstar.

Note 20 – Subsequent Events (continued)

The 197 licenses on which SNR and Northstar defaulted continue to be held by the Commission and will be re-auctioned by the Commission at a future time. In the event that the subsequent winning bids from the re-auction or other award of any of the 197 licenses declined by SNR and Northstar are greater than or equal to the SNR and Northstar winning bids for such license(s) in Auction 97 (an aggregate amount of $3,437,035), no additional amounts will be owed to the FCC. However, to the extent that the subsequent winning bids on any such licenses are less than SNR's and Northstar's winning bids, then SNR and Northstar will be obligated to pay the difference (the deficiency payments). This October 1, 2015, transaction satisfied the $3,334,630 account receivable outstanding at September 30, 2015 (see Note 6). At the same time, a new Account Receivable was created consisting of the total gross bid amount of the 197 licenses that will be re-auctioned, which amount will be satisfied subsequent to the re-auction of the licenses through receipt of the purchase price paid by winning bidders in the re-auction plus, if applicable, any deficiency payments by SNR and Northstar or, in the event they default on any such deficiency payments, by DISH pursuant to a guarantee issued by DISH on October 1, 2015, as a backstop to SNR's and Northstar's deficiency payment obligations.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

OMB Circular No. A-136, *Financial Reporting Requirements*, requires additional disclosure of an entity's budgetary information by major budgetary accounts if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. Major budgetary accounts of the Commission include Salaries and Expenses (S&E), Auctions, and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auction program. USF includes Universal Service Fund and Telecommunications Relay Service Funds. Non-major budgetary accounts are aggregated under Other.

Reflected in the following charts are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2015 and 2014 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2015	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 20,999	$ 4,133	$ 3,265,958	$ 6,141	$ 3,297,231
Recoveries of prior year unpaid obligations	7,084	4,780	1,225,153	4	1,237,021
Other changes in unobligated balance (+ or -)	(1)	-	-	-	(1)
Unobligated balance from prior year budget authority, net	28,082	8,913	4,491,111	6,145	4,534,251
Appropriations (discretionary and mandatory)	-	-	9,610,451	-	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	346,382	106,056	11,715	113	464,266
Total budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Status of Budgetary Resources:					
Obligations incurred	$ 353,966	$ 106,118	$ 17,921,579	$ 146	$ 18,381,809
Unobligated balance, end of year:					
Apportioned	12,989	8,191	-	2,877	24,057
Exempt from apportionment	-	-	(3,927,155)	-	(3,927,155)
Unapportioned	7,509	660	118,853	3,235	130,257
Total unobligated balance, end of year	20,498	8,851	(3,808,302)	6,112	(3,772,841)
Total status of budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 44,189	$ 36,055	$ 4,555,194	$ 128	$ 4,635,566
Obligations incurred	353,966	106,118	17,921,579	146	18,381,809
Outlays (gross) (-)	(346,591)	(105,118)	(9,206,451)	(167)	(9,658,327)
Recoveries of prior year unpaid obligations (-)	(7,084)	(4,780)	(1,225,153)	(4)	(1,237,021)
Unpaid obligations, end of year	44,480	32,275	12,045,169	103	12,122,027
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,270)	-	-	-	(4,270)
Change in uncollected pymts, Fed sources (+ or -)	2,020	-	-	-	2,020
Uncollected pymts, Fed sources, end of year (-)	(2,250)	-	-	-	(2,250)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 39,919	$ 36,055	$ 4,555,194	$ 128	$ 4,631,296
Obligated balance, end of year (net)	$ 42,230	$ 32,275	$ 12,045,169	$ 103	$ 12,119,777
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 346,382	$ 106,056	$ 9,622,166	$ 113	$ 10,074,717
Actual offsetting collections (discretionary and mandatory) (-)	(356,073)	(106,055)	(11,715)	(113)	(473,956)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	2,020	-	-	-	2,020
Budget Authority, net (discretionary and mandatory)	$ (7,671)	$ 1	$ 9,610,451	$ -	$ 9,602,781
Outlays, gross (discretionary and mandatory)	$ 346,591	$ 105,118	$ 9,206,451	$ 167	$ 9,658,327
Actual offsetting collections (discretionary and mandatory) (-)	(356,073)	(106,055)	(11,715)	(113)	(473,956)
Outlays, net (discretionary and mandatory)	(9,482)	(937)	9,194,736	54	9,184,371
Distributed offsetting receipts (-)	(21,305)	-	(54,173)	-	(75,478)
Agency outlays, net (discretionary and mandatory)	$ (30,787)	$ (937)	$ 9,140,563	$ 54	$ 9,108,893

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2014	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 17,942	$ 737	$ 3,338,493	$ 10,097	$ 3,367,269
Recoveries of prior year unpaid obligations	2,956	4,951	453,600	14	461,521
Other changes in unobligated balance (+ or -)	3,852	(3,852)	-	(3,618)	(3,618)
Unobligated balance from prior year budget authority, net	24,750	1,836	3,792,093	6,493	3,825,172
Appropriations (discretionary and mandatory)	-	-	9,808,413	326	9,808,739
Borrowing authority (discretionary and mandatory)	-	-	-	3,616	3,616
Spending authority from offsetting collections (discretionary and mandatory)	343,237	98,788	8,458	154	450,637
Total budgetary resources	$ 367,987	$ 100,624	$ 13,608,964	$ 10,589	$ 14,088,164
Status of Budgetary Resources:					
Obligations incurred	$ 346,340	$ 97,139	$ 10,343,006	$ 4,448	$ 10,790,933
Unobligated balance, end of year:					
Apportioned	17,784	1,761	-	2,780	22,325
Exempt from apportionment	-	-	3,074,850	-	3,074,850
Unapportioned	3,863	1,724	191,108	3,361	200,056
Total unobligated balance, end of year	21,647	3,485	3,265,958	6,141	3,297,231
Total status of budgetary resources	$ 367,987	$ 100,624	$ 13,608,964	$ 10,589	$ 14,088,164
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 43,377	$ 33,834	$ 3,974,879	$ 106	$ 4,052,196
Obligations incurred	346,340	97,139	10,343,006	4,448	10,790,933
Outlays (gross) (-)	(339,706)	(92,833)	(9,309,091)	(4,412)	(9,746,042)
Recoveries of prior year unpaid obligations (-)	(2,956)	(4,951)	(453,600)	(14)	(461,521)
Unpaid obligations, end of year	47,055	33,189	4,555,194	128	4,635,566
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,418)	-	-	-	(4,418)
Change in uncollected pymts, Fed sources (+ or -)	148	-	-	-	148
Uncollected pymts, Fed sources, end of year (-)	(4,270)	-	-	-	(4,270)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 38,959	$ 33,834	$ 3,974,879	$ 106	$ 4,047,778
Obligated balance, end of year (net)	$ 42,785	$ 33,189	$ 4,555,194	$ 128	$ 4,631,296
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 343,237	$ 98,788	$ 9,816,871	$ 4,096	$ 10,262,992
Actual offsetting collections (discretionary and mandatory) (-)	(352,105)	(98,789)	(8,458)	(505)	(459,857)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	148	-	-	-	148
Budget Authority, net (discretionary and mandatory)	$ (8,720)	$ (1)	$ 9,808,413	$ 3,591	$ 9,803,283
Outlays, gross (discretionary and mandatory)	$ 339,707	$ 92,832	$ 9,309,091	$ 4,412	$ 9,746,042
Actual offsetting collections (discretionary and mandatory) (-)	(352,105)	(98,789)	(8,458)	(505)	(459,857)
Outlays, net (discretionary and mandatory)	(12,398)	(5,957)	9,300,633	3,907	9,286,185
Distributed offsetting receipts (-)	(28,342)	-	(39,054)	-	(67,396)
Agency outlays, net (discretionary and mandatory)	$ (40,740)	$ (5,957)	$ 9,261,579	$ 3,907	$ 9,218,789