Fiscal Year 2016 Agency Financial Report

Report Number

16-AUD-06-04

November 15, 2016

Federal Communications Commission
FY 2016 Financial Statement Audit

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OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2016

TO: Chairman

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2016

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, the fiscal year 2016 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, inconformity with U.S. generally accepted accounting principles.
- There were three significant deficiencies noted this year, two related to FCC and USAC's financial reporting and one related to information technology controls at FCC and USAC.

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 15, 2016 and the conclusions expressed therein. Our review, while still ongoing, did not disclose any 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 you extended 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

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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, 2016 and 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, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibly 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 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 audits. We conducted our audits 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 FCC as of September 30, 2016 and 2015, and 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management' s Discussion and Analysis and Schedule of Budgetary Resources by Major Account (hereinafter referred to as the "required supplementary Information") sections to 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.

Other Information

Our audits were 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, and accordingly, we do not express an opinion or provide any assurance on it.

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Restriction on Use of the Report

This report is intended solely for the information and use of the management of the FCC, the U.S. Department of the Treasury, OMB, and the U S. Government Accountability Office and is not intended to be and should not be used by anyone other than these parties.

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 15, 2016, on our consideration of FCC 's internal control over financial reporting and on our tests of FCC 's compliance with provisions of applicable laws and regulations for the year ended September 30, 2016. 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 audits.

Kearney & Company

Alexandria, Virginia
November 15, 2016

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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, 2016, and have issued our report thereon dated November 15, 2016. We conducted our audit in accordance with auditing standards generally accepted in the 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 (OMD) 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 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 FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

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 collected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in FCC s internal control to be significant deficiencies.

Significant Deficiencies

I. Universal Service Fund Budgetary Accounting

During our FY 2015 audit, we found that FCC lacked sufficient reliable controls over its accounting and business processes to ensure that Universal Service Fund's (USF) budgetary transactions were properly recorded, monitored, and reported We considered the aggregation of control weaknesses to be a material weakness in internal control of USF budgetary accounting. In 2016, FCC and the Universal Service Administrative Company (USAC) implemented new processes and controls related to previously identified control deficiencies, reducing the risk associated with USF budgetary accounting. Specifically, controls processes were refined to ensure that obligations and recoveries for the Schools and Libraries and High Cost programs were accurately monitored and recorded. However, in FY 2016, we continued to identify control deficiencies related to USF recoveries that we consider to be a significant deficiency.

FCC established the USF's Rural Health Care Pilot Program (RHCPP) in 2006 to help public and non-profit health care providers build and connect state and region-wide broadband networks. USAC administers the RHCPP on behalf of FCC. Eligible health care providers applied to participate m the RHCPP when the program started FCC reviewed the applications and selected 69 providers to participate in the program, issued a Funding Commitment Decision Letter (FCDL) to the health care provider. When USAC issued the FCDL, accounting personnel recorded obligations in USAC's accounting system for each of the 69 projects. As funds were disbursed, USAC' s accounting personnel reduced the obligated balance

FCC established an invoicing deadline of six years, which begins after each provider received its FCDL After the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line on its Combined Statement of Budgetary Resources (SBR)_

We selected a sample of 34 transactions recorded to the *Recoveries of Prior Year Unpaid Obligations* line of the SBR of the 34 samples, one related to RHCPP. For each sampled item, we obtained and reviewed the supporting documentation. We noted one instance where a RHCPP deobligation was not recorded in the correct fiscal year. As our original sample included only one RHCPP transaction and we noted an error with that transaction, we analyzed all of the RHCPP recoveries recorded in FY2016 and found that an additional 15 FCDL's were not deobligated on the invoice deadline date.

In FY 2015, USAC's RHC program office opted to batch transactions and did not process deobligations timely for its Pilot program due to staffing constraints, program did not communicate this decision to accounting personnel and did not consider how its decision would affect USAC's financial statements. Accounting personnel did not have review procedures to ensure that amounts reported by the program as *Unliquidated Obligations* were valid. Because accounting personnel did not have effective review procedures, the RHC program office's decision went unnoticed. Because USAC recorded deobligations in the incorrect fiscal year, the *Recoveries of Prior Year Unpaid Obligations* line on FCC's interim SBR was misstated

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

1. Develop and implement policies and procedures for recording deobligations in accordance with program rules and accounting standards. *[New]*
2. Develop more formal lines of communication between the accounting personnel and the program offices to ensure proper accounting treatment for transactions. *[Updated]*
3. Develop and implement quality review procedures to ensure that deobligations are processed in the appropriate fiscal year. *[New]*

II. Accounting for Non-Exchange Revenue

FCC is responsible for regulating interstate and international communications. The Communications Act of 1934 authorizes the FCC to use civil monetary penalties (CMP) as a means of enforcing the FCC's rules and regulations. The process to communicate, litigate, or negotiate CMPs requires due process and can take a number of months or years as each situation is unique. CMPs should not be considered revenue for accounting purposes until they represent a legally enforceable debt _

In order to validate the existence and accuracy of the revenue reported by FCC as of June 30, 2016, we tested revenue transactions. For one selected CMP transaction we found that FCC recognized the revenue before all criteria for revenue recognition had been met. This resulted in a significant overstatement of non-exchange revenue in FCC's interim financial statements.

FCC's policies and procedures require the FCC's Revenue and Receivables Operations Group (RROG) Management to review all CMPs recorded in the FCC' s financial system, Genesis, for correct information entered; however, RROG relied on each office responsible for issuing CMPs to perform the review. Although RROG provided each office with a monthly summary- report of C2vfP activity for RROG did not validate the accuracy of the report. Specifically, RROG Management did not compare information contained within the report against the original supporting documentation.

Recommendation: Kearney & Company recommends that the FCC enhance its monitoring controls over revenue transactions. Specifically,

1. Management should ensure that RROG personnel properly classify and record all accounting entries. At a minimum this should include a review of data entered into Genesis against the original supporting documentation.

III. 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 FCC's general Information technology (IT) support system. In addition because FCC's financial statements include financial transactions relating to the USF programs and the North American Numbering Plan (NANP), 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 FCC' s information security program as required by the Federal Information Security Modernization Act (FISMA) of 2014 and issued a separate report. In addition to the work performed during our evaluation, we performed risk-based procedures focused on IT controls that could lead to significant misstatements of or corruption to the financial data needed for 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 within Genesis. The control deficiencies noted during our FISMA evaluation and our financial statement audit are summarized below:

- FCC General IT Support System — We noted that FCC had improved its overall information security program since the FY 2015 FISMA evaluation, most notably in developing a risk management program designed to improve the security over FCC information and implementing major changes in its environment. The FCC completed the relocation of the primary FCC data center , shifted processing to the cloud, and continued to replace legacy systems and infrastructure. Despite the progress made during FY 2016, we identified control weaknesses in multiple IT control areas, including Information Security Continuous Monitoring, Identity and Access Management, Risk Management, and Contractor Systems. These control weaknesses impacted FCC's general IT support system. FCC management stated that these efforts continue to require significant resources, delaying the full 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 — 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, FCC's general IT support system is the gateway for all of the FCC's 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 FCC's general IT support system. Specifically, we noted that the FY 2016 contingency planning test of Genesis failed to meet the required restoration time frame.

- Other FCC Systems The data in other FCC systems indirectly impacts the information reported m the financial system. We performed risk-based procedures on two of these systems and found that for one of the systems, the authorization to operate had expired. Without an authorization to operate, the FCC is operating a system for which the identified risks have not been evaluated and accepted by management.

- Third-Party Systems and FCC Oversight— FCC relies upon third-parties to provide financial data in an accurate and timely manner. The FISMA evaluation and financial statement audit noted weaknesses m the FCC's oversight of third party IT systems. We found that FCC has not ensured monitoring and compliance with the provisions of FISMA for external entities that operate systems on behalf of FCC. Specifically, we found that FCC lacks policies and procedures for overseeing third-party systems not covered by contractual arrangements and failed to establish plans of actions and milestones to track compliance for external entities' systems operated on behalf of the FCC. Additionally, we performed specific risk-based tests of IT controls at the Universal Service Administrative Company (USAC) and noted weaknesses 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 FCC' s financial statements.

Similar weaknesses were noted in the FY 2015 FISMA evaluation and financial statement audit and were reported as a significant deficiency. In general, we found that FCC had not implemented effective policies, procedures and processes over its general support system financial management system, Genesis, other systems, or third-party operated systems. We consider the aggregation of these control weaknesses 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 financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2016 FISMA evaluation report includes 39 recommendations intended to improve the effectiveness of FCC ' s information security program controls in the areas of Information Security Continuous Monitoring, Configuration Management, Identity and Access Management, Incident Response, Risk Management, Contingency Planning and Contractor Systems. Of the 39 recommendations, 29 of the recommendations related to FCC and

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10 of the recommendations related to USAC. Of the 29 FCC recommendations, 26 related to FISCAM control areas. Of the 10 USAC recommendations, 9 related to FISCAM control areas.

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

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the FCC's FY 2015 financial statements,[1] we noted two issues that were related to internal control over financial reporting. The status of the FY 2015 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2015 Status	FY 2016 Status
Universal Services Fund Budgetary Accounting	Material Weakness	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

FCC's Responses to Findings

The FCC' s response to the significant deficiencies identified in our audit is included 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 2016" included in Agency Financial Report. The FCC's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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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 m 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 15, 2016

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

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, 2016, and have issued our report thereon dated November 15, 2016. 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 FCC's consolidated financial statements are free from material misstatement: we performed tests of its compliance with provisions of applicable laws and regulations 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 FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin NO. 15-02. Although audit procedures did not identify any instances of non-compliance in FY 2016, FCC management communicated a potential instance of non-compliance with the *Antideficiency Act*[1] that was identified in 2011, which is still being researched by FCC as of September 30, 2016.

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

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

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Bulletin No. 15-02, in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2016

Office of the Managing Director

DATE: November 15, 2016

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Acting Chief Financial Officer
Dr. 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 2016

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 independent auditor, Kearney and Company, to work with the Federal Communications Commission (FCC or Commission) throughout the fiscal year (FY) 2016 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 2016 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 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 eleventh straight year, the independent auditor provided an unmodified opinion and found that the Commission's consolidated financial statements for FY 2016 present fairly, in all material respects, the financial position of the Commission as of September 30, 2016. Eleven straight years of clean audit opinions is an unprecedented accomplishment for the Commission. Throughout this entire period, we have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, more work remains. The FY 2016 audit report did not identify any material weaknesses but did identify three significant deficiencies. These significant deficiencies related to Universal Service Fund (USF) budgetary accounting, accounting for non-exchange revenue, and information technology controls. We concur with the recommendations made by the independent auditors in their reports.

During FY 2016, the Commission and the Universal Service Administrative Company (USAC) implemented new processes and controls related to the previously identified material weakness related to USF budgetary accounting in the Schools and Libraries and High Cost programs. Although the Commission and USAC made significant improvements in this area in FY 2016 the auditors found a significant deficiency related to recoveries in the Rural Health Care program.

The auditors identified a new control weakness in accounting for non-exchange revenue. The auditors found that controls to record non-exchange revenues need to be improved because those controls were not effective in all instances in FY 2016. Since this accounting error was identified by the auditors before the fiscal year-end, this error did not affect the Commission's FY 2016 consolidated financial statements. We will enhance our existing controls to prevent any recurrence of the same accounting error in the future.

The Commission is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2016 to make improvements and to resolve audit findings from previous 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. In FY 2016, the FCC Chief Information Officer (CIO) and the new FCC Chief Information Security Officer led an IT Security team focused on improving the Commission's security posture. This initiative and the work completed in prior fiscal years reduced the overall Commission's FISMA findings by 64 percent from FY 2012, and the Commission is now working diligently to resolve the remaining FISMA issues.

The Commission made significant strides in FY 2016 by resolving the prior year non-compliance related to the Debt Collection Improvement Act. This is the first year that the auditors have reported no instances of non-compliance with applicable provisions of laws and regulations.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. With sufficient funding, resources, and time, the Commission will continue to address all weaknesses in its information systems and data stores. Also, the FCC expects upgrades in its systems, along with strengthened processes and oversight, will eliminate a considerable number of the remaining weaknesses. Over time, the FCC will implement augmentations to the FCC network infrastructure and governance processes in order to strengthen the Commission's cyber security posture.

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 2017 to resolve the FY 2016 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens, Managing Director
Office of the Managing Director

Jae Seong, Acting Chief Financial Officer
Office of the Managing Director

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

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Balance Sheet
As of September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 3,568,793	$ 11,659,650
Investments (Note 5)	8,022,992	8,136,062
Accounts receivable (Note 6)	506	21,152
Other	3,740	3,719
Total intragovernmental	11,596,031	19,820,583
Cash and other monetary assets (Note 4)	9,095,208	131,796
Accounts receivable, net (Note 6)	927,444	4,184,884
Direct loans receivable, net	-	3,234
General property, plant, and equipment, net	48,426	28,658
Other	13,024	13,024
Total assets	$ 21,680,133	$ 24,182,179
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 676	$ 548
Other (Note 8)		
Custodial	3,033,683	540,289
Other	4,782	8,477
Total other	3,038,465	548,766
Total intragovernmental	3,039,141	549,314
Accounts payable	199,051	230,818
Federal employee and veteran benefits	2,838	-
Other (Note 8)		
Deferred revenue	360,718	14,314,772
Prepaid contributions	53,390	48,290
Accrued liabilities for Universal Service	549,167	557,796
Deposit/Unapplied liability	8,949,194	-
Other	29,464	32,142
Total other	9,941,933	14,953,000
Total liabilities	$ 13,182,963	$ 15,733,132
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - All Other Funds	$ 2,832	$ 2,868
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,279,799	8,280,330
Cumulative results of operations - All Other Funds	214,539	165,849
Total net position	$ 8,497,170	$ 8,449,047
Total liabilities and net position	$ 21,680,133	$ 24,182,179

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Statement of Net Cost
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Program costs (Note 11)**:**		
Promoting Economic Growth and National Leadership:		
Total Gross Cost	$ 7,153,421	
Protecting Public Interest Goals:		
Total Gross Cost	79,543	
Making Networks Work for Everyone		
Total Gross Cost	3,040,999	
Promoting Operational Excellence:		
Total Gross Cost	139,612	$ 73,662
Connect America:		
Total Gross Cost		561,775
Maximize Benefits of Spectrum:		
Total Gross Cost		100,119
Protect and Empower Consumers:		
Total Gross Cost		50,790
Promote Innovation, Investment, and America's Global Competitiveness:		
Total Gross Cost		11,343
Promote Competition:		
Total Gross Cost		7,803,173
Public Safety and Homeland Security:		
Total Gross Cost		46,681
Advance Key National Purposes:		
Total Gross Cost		1,005,997
Total Program Costs	$ 10,413,575	$ 9,653,540
Less: earned revenues not attributed to programs	(536,954)	(483,350)
Net cost of operations	$ 9,876,621	$ 9,170,190

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, 2016 and 2015
(Dollars in thousands)

	FY 2016			FY 2015		
	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	$ 8,280,330	$ 165,849	$ 8,446,179	$ 7,880,477	$ 157,790	$ 8,038,267
Budgetary Financing Sources:						
Appropriations used	-	36	36	-	191	191
Non-exchange revenue	9,934,946	-	9,934,946	9,587,271	-	9,587,271
Other	1	-	1	51	-	51
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	-	-	-	(12)	(12)
Imputed financing	-	12,950	12,950	-	13,418	13,418
Other	-	(23,153)	(23,153)	-	(22,817)	(22,817)
Total Financing Sources	9,934,947	(10,167)	9,924,780	9,587,322	(9,220)	9,578,102
Net Cost of Operations	9,935,478	(58,857)	9,876,621	9,187,469	(17,279)	9,170,190
Net Change	(531)	48,690	48,159	399,853	8,059	407,912
Cumulative Results of Operations	8,279,799	214,539	8,494,338	8,280,330	165,849	8,446,179
Unexpended Appropriations:						
Beginning Balances	-	2,868	2,868	-	3,059	3,059
Budgetary Financing Sources:						
Appropriations used	-	(36)	(36)	-	(191)	(191)
Total Budgetary Financing Sources	-	(36)	(36)	-	(191)	(191)
Total Unexpended Appropriations	-	2,832	2,832	-	2,868	2,868
Net Position	$ 8,279,799	$ 217,371	$ 8,497,170	$ 8,280,330	$ 168,717	$ 8,449,047

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ (3,772,841)	$ 3,297,231
Recoveries of prior year unpaid obligations	780,225	1,237,021
Other changes in unobligated balance (+ or -)	35,922	17,273
Unobligated balance from prior year budget authority, net	(2,956,694)	4,551,525
Appropriations (discretionary and mandatory)	9,974,105	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	501,541	446,992
Total budgetary resources	$ 7,518,952	$ 14,608,968
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 13)	$ 8,824,700	$ 18,381,809
Unobligated balance, end of year:		
Apportioned, unexpired accounts	237,212	142,910
Exempt from apportionment, unexpired accounts (Note 1 A.)	(1,552,492)	(3,927,155)
Unapportioned, unexpired account	8,237	8,128
Unexpired unobligated balance, end of year	(1,307,043)	(3,776,117)
Expired unobligated balance, end of year	1,295	3,276
Unobligated balance, end of year (total)	(1,305,748)	(3,772,841)
Total status of budgetary resources	$ 7,518,952	$ 14,608,968
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 12,122,027	$ 4,635,566
New obligations and upward adjustments	8,824,700	18,381,809
Outlays (gross) (-)	(10,554,448)	(9,658,327)
Recoveries of prior year unpaid obligations (-)	(780,225)	(1,237,021)
Unpaid obligations, end of year	9,612,054	12,122,027
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,250)	(4,270)
Change in uncollected pymts, Fed sources (+ or -)	173	2,020
Uncollected pymts, Fed sources, end of year (-)	(2,077)	(2,250)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$ 12,119,777	$ 4,631,296
Obligated balance, end of year (net)	$ 9,609,977	$ 12,119,777
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 10,475,646	$ 10,057,443
Actual offsetting collections (discretionary and mandatory) (-)	(541,885)	(473,956)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	173	2,020
Recoveries of prior year paid obligation (discretionary and mandatory)	35,922	17,274
Budget Authority, net (total) (discretionary and mandatory)	$ 9,969,856	$ 9,602,781
Outlays, gross (discretionary and mandatory)	$ 10,554,448	$ 9,658,327
Actual offsetting collections (discretionary and mandatory) (-)	(541,885)	(473,956)
Outlays, net (total) (discretionary and mandatory)	10,012,563	9,184,371
Distributed offsetting receipts (-)	(92,804)	(75,478)
Agency outlays, net (discretionary and mandatory)	$ 9,919,759	$ 9,108,893

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Statement of Custodial Activity
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 14,354,740	$ 27,094,686
Fines and Penalties	42,099	113,352
Total Cash Collections	14,396,839	27,208,038
Accrual Adjustments (+/-)		
Spectrum Auctions (Note 6)	(3,334,631)	3,334,631
Fines and Penalties	26,696	19,316
Total Accrual Adjustments	(3,307,935)	3,353,947
Total Custodial Revenue (Note 18)	11,088,904	30,561,985
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(48,452)	(113,352)
Spectrum Relocation Fund (OMB)	-	(11,499,988)
Public Safety Trust Fund (NTIA)	(8,430,058)	(18,627,804)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(2,493,394)	(214,841)
Retained by the Reporting Entity	(117,000)	(106,000)
Total Disposition of Collections	(11,088,904)	(30,561,985)
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, 2016 and 2015

(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, 2016, P.L. 114-113, 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, 2017. Accordingly, these funds are not subject to apportionment by the Office of Management and Budget (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 (SFFAC) No. 2, Entity and Display. NANP is not subject to budgetary accounting and Congress has not appropriated funds for NANP in an appropriation bill, as result 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 U.S. generally accepted accounting principles (GAAP) and the form and content for Federal entity financial statements specified by 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

The USF and NANP portion of 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 for USF and NANP is collateralized by the Federal Reserve.

The Commission's portion of Cash and Other Monetary Assets represent upfront payments for the forward auction of Incentive Auction which are deposited in Federal Reserve Bank of New York.

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. General Property, Plant and Equipment, Net

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. General Property, Plant and Equipment, Net (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 improvements, 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 Phase I, the Connect America Fund (CAF) Phase II, Rural Broadband Experiment in high cost area, and National Deaf-Blind Equipment Distribution Program in TRS. For these programs, an accrual is made to Accounts Payable instead of Accrued Liabilities. 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. 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 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 Department of Labor.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 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: Promoting Economic Growth and National Leadership; Protecting Public Interest Goals; Making Networks Work for Everyone; and Promoting 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 $384,012 for FY 2016 and $339,844 for FY 2015 were achieved. The Commission collected $4,249 above the required regulatory level in FY 2016 and $7,670 in FY 2015. The cumulative amount collected above the required annual regulatory level is $102,616 at September 30, 2016. 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 $117,000 in FY 2016 and $106,000 in FY 2015.

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 $11,020,109 in FY 2016 and $30,429,317 in FY 2015. In FY 2016, the Commission transferred recognized custodial revenue of $8,430,058 from Auction 97 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and $6,353 from other Auctions to the Treasury General Fund. In FY 2015, the Commission transferred custodial revenue from Auction 97 of $11,499,988 to the Spectrum Relocation Fund that is administered by the OMB and $18,627,804 to the Public Safety Trust Fund that is managed by the NTIA. In FY 2015, all earned spectrum revenue transferred were from Auction 97.

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 $23,153 in FY 2016 and $19,474 in FY 2015.

Note 1 - Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

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 $665 in FY 2016 and $2,711 in FY 2015.

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 $9,879,389 and $9,539,289 were received in FY 2016 and FY 2015, respectively. For more information, refer to Note 10.

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 $384,012 for FY 2016 and $339,844 for FY 2015. Regulatory fee collections fully fund the no-year appropriations for FY 2016 and FY 2015.

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 2016 and FY 2015, 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 2016. The Commission did not receive an appropriation in FY 2016 and FY 2015. 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.

N. Reprogramming

In FY 2016, the Commission received approval to reprogram $4,068 of prior year de-obligations to modernize the Enforcement Bureau's field office operations and the Consumer & Governmental Affairs Bureau. In FY 2015, the Commission received approval to reprogram $8,750 of prior year de-obligations to fund information technology investments.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

O. Transactions with Related Parties (continued)

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, 2016 and 2015 are listed below:

Administrative Fees:

	USF	TRS	NANP	Total
FY 2016	$ 158,881	$ 10,008	$ 5,923	$ 174,812
FY 2015	$ 130,339	$ 4,221	$ 5,769	$ 140,329

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. Net position of funds from dedicated collections is separately disclosed in Note 10.

Q. Incentive Auction

In FY 2016, the Commission took significant steps to initiate the Incentive Auction, which uses market forces to align the use of broadcast spectrum with demands for wireless broadband. The Incentive Auction began on March 29, 2016, and as of September 30, 2016, it was in the middle of Stage 2 of the reverse auction. As with any auction, the Commission does not know when the Incentive Auction will end.

R. Comparative Data

Certain FY 2015 amounts have been reclassified to conform to the FY 2016 presentation.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Intragovernmental:		
Fund Balance with Treasury	$ 3,291,722	$ 11,434,117
Accounts Receivable	376	21,069
Total Intragovernmental	3,292,098	11,455,186
Cash and Other Monetary Assets	8,947,086	-
Accounts Receivable, Net	60,583	3,369,326
Total Non-entity Assets	12,299,767	14,824,512
Total Entity Assets	9,380,366	9,357,667
Total Assets	$ 21,680,133	$ 24,182,179

Non-entity Fund Balance with Treasury (FBWT) and Cash and Other Monetary Assets primarily represents auction deposits. 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, 2016 and 2015:

FY 2016	General Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 76,720	$ -	$ -	$ 76,720
Unavailable	128,684	4	-	128,688
Obligated Balance not yet Disbursed	71,663	-	-	71,663
Non-Budgetary FBWT	-	-	3,291,722	3,291,722
Total	$ 277,067	$ 4	$ 3,291,722	$ 3,568,793
FY 2015				
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

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.

Note 3 - Fund Balance with Treasury (continued)

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 General Fund or other Federal agencies.

Note 4 - Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Cash and Other Monetary Assets	$ 9,095,208	$ 131,796

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. In FY 2016, upfront payments for the forward auction of the Incentive Auction were deposited in Federal Reserve Bank of New York. For more information refer to Note 1 Q. Interest earned on USF and NANP contributions is reinvested.

In FY 2016, Cash and Other Monetary Assets included $145,575 in USF contributions and related accrued interest being held for distribution, $2,547 in NANP deposits and related accrued interest, and $8,947,086 in upfront spectrum auctions payments. No interest was earned on upfront payments.

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. Interest earned on upfront payments was transferred to the Treasury's General Fund.

Note 5 - Investments

The following summarizes Investments as of September 30, 2016 and 2015:

FY 2016	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 1,771,394	EI	$ 681	$ -	$ 1,772,075	$ -	$ 1,772,330
Treasury Notes	6,231,576	EI	6,609	12,732	6,250,917	-	6,254,071
Total	$ 8,002,970		$ 7,290	$ 12,732	$ 8,022,992	$ -	$ 8,026,401
FY 2015							
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

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; therefore, no adjustment have been made to present market value in FY 2016. However, USF sold $300,000 worth of investments before maturity to meet cash requirements for CAF Phase II support in FY 2015. This early redemption resulted in a total gain of $51. All investments are held by USF and are also recognized as part of Note 10 - Funds from Dedicated Collections.

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, 2016 and 2015:

	Intragovernmental	Public	Total
FY 2016			
Gross Accounts Receivable	$ 506	$ 1,456,940	$ 1,457,446
Allowance for Doubtful Accounts	-	(529,496)	(529,496)
Accounts Receivable, Net	$ 506	$ 927,444	$ 927,950
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

The following summarizes accounts receivable by type as of September 30, 2016 and 2015:

	FY 2016			FY 2015		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,134,587	$ (273,674)	$ 860,913	$ 1,094,405	$ (260,406)	$ 833,999
COMAD - Schools and Libraries	121,743	(118,930)	2,813	227,682	(225,592)	2,090
Regulatory Fees	30,791	(24,421)	6,370	32,078	(24,893)	7,185
Spectrum Auction	21,127	(21,127)	-	3,355,959	(21,329)	3,334,630
Civil Monetary Penalties	135,412	(83,547)	51,865	45,438	(22,303)	23,135
Other	13,786	(7,797)	5,989	14,344	(9,347)	4,997
Total	$ 1,457,446	$ (529,496)	$ 927,950	$ 4,769,906	$ (563,870)	$ 4,206,036

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 98% allowance in FY 2016 and 99% allowance in FY 2015.

The September 30, 2015 balance in 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. 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 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 during in 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.

Note 6 - Accounts Receivable, Net (continued)

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 granted an aggregate of 505 licenses to SNR and Northstar.

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 based upon the Commission's rules in place at the time Auction 97 concluded, SNR and Northstar will be obligated to pay the difference (the deficiency payments). In the event they default on any such deficiency payments, DISH issued a guarantee on October 1, 2015, as a backstop to SNR's and Northstar's deficiency payment obligations.

A receivable is not recorded in FY 2016 for the 197 defaulted licenses, since the amount owed is not currently reasonably estimable, and is analogous to a contingent gain. While the minimum obligation to the Commission for the defaulted licenses is established, the potential deficiency payment owed by SNR and Northstar, if any, is contingent upon the outcome of subsequent auctions.

Note 7 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Intragovernmental:		
FECA Liability	$ 560	$ 566
Unemployment Liability	1	11
GSA Real Estate Taxes	2,148	2,673
Total Intragovernmental	2,709	3,250
Actuarial FECA Liability	2,838	-
Other:		
Unfunded Leave	18,629	19,451
Accrued Liabilities for Universal Service	549,167	557,796
Total liabilities not covered by budgetary resources	573,343	580,497
Total liabilities covered by budgetary resources	12,609,620	15,152,635
Total Liabilities	$ 13,182,963	$ 15,733,132

Note 7 - Liabilities Not Covered by Budgetary Resources (continued)

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

Note 8 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2016 and 2015:

FY 2016	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 3,033,683	$ 3,033,683
Other	-	4,782	4,782
Total Intragovernmental	$ -	$ 3,038,465	$ 3,038,465
Deferred Revenue	$ 31,948	$ 328,770	$ 360,718
Prepaid Contributions	-	53,390	53,390
Accrued Liabilities for Universal Service	-	549,167	549,167
Deposit/ Unapplied Liability	-	8,949,194	8,949,194
Other	-	29,464	29,464
Total Other	$ 31,948	$ 9,909,985	$ 9,941,933

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
Deposit/ Unapplied Liability	-	-	-
Other	-	32,142	32,142
Total Other	$ 34,768	$ 14,918,232	$ 14,953,000

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund or other Federal agencies. The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, and ITS processing fees. 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 primarily represent anticipated future payments for the High Cost, Lifeline, and TRS programs. The obligations for most of these subsidies are not recognized until payment files are approved in the subsequent month. Deposit Liability represents upfront

Note 8 - Other Liabilities (continued)

payments for the forward auction of the Incentive Auction deposited in Federal Reserve Bank of New York. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, and 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, 2016, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

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 Commission had no activity related to Gifts and Bequests in FY 2016 and FY 2015.

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2016 and 2015:

Balance Sheet	FY 2016	FY 2015
Assets:		
Investments	$ 8,022,992	$ 8,136,062
Cash and other monetary assets	145,575	127,061
Accounts receivable, net	864,642	837,145
General property, plant, and equipment, net	29,081	6,251
Other assets	13,024	13,024
Total assets	$ 9,075,314	$ 9,119,543
Liabilities:		
Accounts payable	$ 185,598	$ 218,845
Deferred revenue	7,377	14,176
Prepaid contributions	53,373	48,258
Accrued liabilities	549,167	557,796
Other	-	138
Total liabilities	$ 795,515	$ 839,213
Cumulative results of operations	$ 8,279,799	$ 8,280,330
Total liabilities and net position	$ 9,075,314	$ 9,119,543
Statement of Net Cost		
Net cost of operations	$ 9,935,478	$ 9,187,469
Statement of Changes in Net Position		
Net position beginning of period	$ 8,280,330	$ 7,880,477
Non-exchange revenue	9,934,946	9,587,271
Other financing sources	1	51
Net cost of operations	9,935,478	9,187,469
Change in net position	(531)	399,853
Net position end of period	$ 8,279,799	$ 8,280,330

Note 11 - Intragovernmental Costs and Exchange Revenue

Intragovernmental costs and earned revenues are transactions between the Commission and other reporting entities within the Federal Government. Costs and earned revenues with the public are transactions between the Commission and non-Federal entities. If the Commission purchases goods or services from another Federal entity, the related costs are classified as intragovernmental. If the Commission sells them to the public, the earned revenues are classified as with the public. Intragovernmental costs and earned revenues for the years ended September 30, 2016 and 2015 are the following:

FY 2016

Program Costs	Intragovernmental	Public	Total
Promoting Economic Growth and National Leadership	$ 28,927	$ 7,124,494	$ 7,153,421
Protecting Public Interest Goals	20,105	59,438	79,543
Making Networks Work for Everyone	35,022	3,005,977	3,040,999
Promoting Operational Excellence	35,288	104,324	139,612
Total	$ 119,342	$ 10,294,233	$ 10,413,575
Total Earned Revenue	$ 821	$ 536,133	$ 536,954

FY 2015

Program Costs	Intragovernmental	Public	Total
Promoting Operational Excellence	$ 19,005	$ 54,657	$ 73,662
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
Total	$ 118,738	$ 9,534,802	$ 9,653,540
Total Earned Revenue	$ 2,826	$ 480,524	$ 483,350

Note 12 - Available Borrowing Authority, End of the Period

As of September 30, 2016, the Commission did not have any available borrowing authority. Pursuant to Public Law 112-96 Section 6403 (d) (3), the FCC is authorized to borrow from Treasury up to $1,000,000 to fund payments of relocation costs incurred by the TV broadcasters that are relocated to new spectrum bands. The Channel Reassignment Public Notice, which will be issued after the conclusion of the Incentive Auction will trigger the borrowing authority.

Note 13 - Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable

The following summarizes Apportionment Categories of New obligations and upward adjustments for the years ended September 30, 2016 and 2015:

	FY 2016	FY 2015
Direct:		
Category B	$ 1,500,893	$ 1,378,673
Exempt from Apportionment	7,323,133	17,002,014
Total Direct	8,824,026	18,380,687
Reimbursable:		
Category B	674	1,122
New obligations and upward adjustments (total)	$ 8,824,700	$ 18,381,809

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 $9,415,759 as of September 30, 2016 and $11,895,800 as of September 30, 2015.

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.

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.

Note 15 - Permanent Indefinite Appropriations (continued)

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 2016 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $117,000.

Note 16 - Legal Arrangements Affecting Use of Unobligated Balances

Pursuant to Public Laws, offsetting collections received in excess of $384,012 in FY 2016 and $339,844 in FY 2015 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 and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2015 and the amounts presented in the FY 2017 President's Budget. The FY 2018 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2016 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 Treasury General Fund. Additionally, there is exchange revenue reported on the Statement of Custodial Activity associated with the radio spectrum auction proceeds. For more information, refer to Note 1 M.

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

As of September 30, 2016 and 2015:

	FY 2016	FY 2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New obligations and upward adjustments	$ 8,824,700	$ 18,381,809
Less: spending authority from offsetting collections and recoveries	1,317,688	1,701,287
Obligations net of offsetting collections and recoveries	7,507,012	16,680,522
Less: offsetting receipts	92,804	75,478
Net obligations	7,414,208	16,605,044
Transfers in/out without reimbursement (+/-)	-	(12)
Imputed financing	12,950	13,418
Other Resources	(23,152)	(22,766)
Total Resources Used to Finance Activities	7,404,006	16,595,684
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	2,480,041	(7,377,122)
Resources that fund expenses recognized in prior periods	(838)	(960)
Budgetary offsetting collections and receipts that do not affect net cost of operations	92,808	75,591
Resources that finance the acquisition of assets	(31,204)	(7,820)
Other	11,865	(12,229)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	2,552,672	(7,322,540)
Total Resources Used to Finance the Net Cost of Operations	9,956,678	9,273,144
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(832)	(1,004)
Upward/Downward reestimates of credit subsidy (+/-)	-	(3,343)
Increase in exchange revenue receivable from the public	(2,187)	(1,000)
Depreciation and amortization	12,366	14,574
Other (+/-)	(89,404)	(112,181)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(80,057)	(102,954)
Net Cost of Operations	$ 9,876,621	$ 9,170,190

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2016 and 2015
(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 chart below are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2016 and September 30, 2015 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2016	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 20,498	$ 8,851	$ (3,808,302)	$ 6,112	$ (3,772,841)
Recoveries of prior year unpaid obligations	1,857	1,935	776,431	2	780,225
Other changes in unobligated balance (+ or -)	1,879	88	33,955	-	35,922
Unobligated balance from prior year budget authority, net	24,234	10,874	(2,997,916)	6,114	(2,956,694)
Appropriations (discretionary and mandatory)	-	-	9,974,105	-	9,974,105
Spending authority from offsetting collections (discretionary and mandatory)	384,537	117,000	-	4	501,541
Total budgetary resources	$ 408,771	$ 127,874	$ 6,976,189	$ 6,118	$ 7,518,952
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 341,580	$ 112,084	$ 8,367,633	$ 3,403	$ 8,824,700
Unobligated balance, end of year:					
Apportioned, unexpired accounts	59,780	14,230	160,493	2,709	237,212
Exempt from apportionment, unexpired accounts	-	-	(1,552,492)	-	(1,552,492)
Unapportioned, unexpired accounts	6,116	1,560	555	6	8,237
Unexpired unobligated balance, end of year	65,896	15,790	(1,391,444)	2,715	(1,307,043)
Expired unobligated balance, end of year	1,295	-	-	-	1,295
Unobligated balance, end of year (total)	67,191	15,790	(1,391,444)	2,715	(1,305,748)
Total status of budgetary resources	$ 408,771	$ 127,874	$ 6,976,189	$ 6,118	$ 7,518,952
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 44,481	$ 32,274	$ 12,045,169	$ 103	$ 12,122,027
New obligations and upward adjustments	341,580	112,084	8,367,633	3,403	8,824,700
Outlays (gross) (-)	(344,447)	(108,563)	(10,098,056)	(3,382)	(10,554,448)
Recoveries of prior year unpaid obligations (-)	(1,857)	(1,935)	(776,431)	(2)	(780,225)
Unpaid obligations, end of year	39,757	33,860	9,538,315	122	9,612,054
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,250)	-	-	-	(2,250)
Change in uncollected pymts, Fed sources (+ or -)	173	-	-	-	173
Uncollected pymts, Fed sources, end of year (-)	(2,077)	-	-	-	(2,077)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 42,231	$ 32,274	$ 12,045,169	$ 103	$ 12,119,777
Obligated balance, end of year (net)	$ 37,680	$ 33,860	$ 9,538,315	$ 122	$ 9,609,977
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 384,537	$ 117,000	$ 9,974,105	$ 4	$ 10,475,646
Actual offsetting collections (discretionary and mandatory) (-)	(390,838)	(117,088)	(33,955)	(4)	(541,885)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	173	-	-	-	173
Recoveries of prior year paid obligations (directcretionary and mandatory)	1,879	88	33,955	-	35,922
Budget Authority, net (discretionary and mandatory)	$ (4,249)	$ -	$ 9,974,105	$ -	$ 9,969,856
Outlays, gross (discretionary and mandatory)	$ 344,447	$ 108,563	$ 10,098,056	$ 3,382	$ 10,554,448
Actual offsetting collections (discretionary and mandatory) (-)	(390,838)	(117,088)	(33,955)	(4)	(541,885)
Outlays, net (discretionary and mandatory)	(46,391)	(8,525)	10,064,101	3,378	10,012,563
Distributed offsetting receipts (-)	(40,203)	-	(52,601)	-	(92,804)
Agency outlays, net (discretionary and mandatory)	$ (86,594)	$ (8,525)	$ 10,011,500	$ 3,378	$ 9,919,759

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 -)	5,558	-	11,715	-	17,273
Unobligated balance from prior year budget authority, net	33,641 8,913	4,502,826	6,145	4,551,525	Appropriations
(discretionary and mandatory)	-	-	9,610,451	-	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	340,823	106,056	-	113	446,992
Total budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 353,966	$ 106,118	$ 17,921,579	$ 146	$ 18,381,809
Unobligated balance, end of year:					
Apportioned, unexpired accounts	12,989	8,191	118,853	2,877	142,910
Exempt from apportionment, unexpired accounts	-	-	(3,927,155)	-	(3,927,155)
Unapportioned, unexpired accounts	4,837	56	-	3,235	8,128
Unexpired unobligated balance, end of year	17,826	8,247	(3,808,302)	6,112	(3,776,117)
Expired unobligated balance, end of year	2,672	604	-	-	3,276
Unobligated balance, end of year (total)	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
New obligations and upward adjustments	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)	$ 340,823	$ 106,056	$ 9,610,451	$ 113	$ 10,057,443
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
Recoveries of prior year paid obligations (directcretionary and mandatory)	5,502	57	11,715	-	17,274
Budget Authority, net (discretionary and mandatory)	$ (7,728)	$ 58	$ 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

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