Audit of Federal Communications Commission's FY 2018 Financial Statements

Report Number

18-AUD-07-05

November 15, 2018

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UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
Office of Inspector General

MEMORANDUM

DATE: November 15, 2018

TO: Chairman

FROM: Inspector General for RM

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2018

As required by the Accountability of Tax Dollars Act of 2002, (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the fiscal year 2018 financial statements of the Federal Communications Commission (FCC).

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

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- A material weakness exists related to Universal Service Fund Budgetary Accounting.
- A significant deficiency exists 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, 2018, 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 Government Auditing Standards.

The Office of Inspector General appreciates the cooperation and courtesies you extended to our staff and the staff of Kearney & Company, P.C. during the 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, 2018 and 2017, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCC as of September 30, 2018 and 2017, and its net costs, changes in net position, custodial activities, and budgetary resources for the years 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 that 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 financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 financial statements as a whole. The information in the *Message from the Chairman* and the *Other Information* sections is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated November 15, 2018, on our consideration of FCC's internal control over financial reporting and on our tests of FCC's compliance with provisions of applicable laws, regulations, and contracts for the year ended September 30, 2018. 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

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accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, and they should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2018

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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, 2018, and we have issued our report thereon dated November 15, 2018. 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. 19-01, *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) to determine the 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. 19-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the 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. However, as described in the following sections, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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

Material Weakness

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

I. Universal Service Fund Budgetary Accounting

Through the Universal Service Fund's (USF) Schools and Libraries (S&L) program, FCC helps schools and libraries obtain affordable broadband internet. This includes help paying for recurring costs, such as monthly internet bills, and non-recurring costs, such as the purchase and installation of equipment. The Universal Service Administrative Company (USAC), with the assistance of a third-party service provider, administers the S&L program on behalf of FCC. We found several control deficiencies relating to USAC and FCC's ability to ensure that S&L program budgetary accounting entries were complete and accurate. In aggregate, we consider the deficiencies described in this section to be a material weakness.

Eligible schools, school districts, and libraries apply to participate in the S&L program. Once accepted into the program, USAC issues a Funding Commitment Decision Letter (FCDL). The FCDL communicates acceptance into the program and relevant conditions, including the type of services USAC will reimburse, the maximum amount eligible for reimbursement, and the date by which the invoices must be submitted. When USAC issues a FCDL, accounting personnel record an obligation in USAC's accounting system. As invoices are paid, USAC's accounting personnel reduce the obligated balance. The applicant submits Form 486, *Receipt of Service Confirmation and Children's Internet Protection Act Certification Form*, to USAC. Form 486 communicates to USAC that services have started (or, in certain circumstances, will start) and authorizes the payment of invoices which reduces the obligated balance. For FCDLs issued with a prior fund year, if USAC does not approve and process Form 486 in E-Rate Productivity Center (EPC) prior to the FCDL's expiration, the FCDL would be erroneously de-obligated.

Subsequent to the issuance of a FCDL, eligible applicants are able to request updates to their FCDLs through a FCC Form 500, *Funding Commitment Adjustment Request*. Form 500 is used to submit various types of changes to funding requests after USAC has issued commitments for those requests. Applicants file a FCC Form 500 to adjust the contract expiration date listed on FCC Form 471, *Description of Services Ordered and Certification Form*, cancel a Funding Request Number (FRN), reduce the commitment amount of a FRN, or request a service delivery extension for non-recurring services. Additionally, changes to the FCDL may occur when program officials grant an applicant's request for funding commitment adjustments through FCC's appeals process.

Beginning in fiscal year (FY) 2016, USAC began transitioning from its Simplified Tracking and Review System (STARs) to EPC, an account and application management system for the S&L E-rate Program. E-rate Program applicants use EPC to submit documentation related to funding commitment adjustments, receive notifications, and contact customer service. USAC and its third-party service provider also use EPC to support their daily operations, including tracking appeals,[1] post-commitment adjustments,[2] and FCC Form 500 submissions.

<u>Incorrect Budgetary Amounts Due to EPC Design Issues</u> – We selected a sample of 14 transactions recorded to the United States Standard General Ledger (USSGL) Account 4881, *Upward Adjustments of Prior-Year Undelivered Orders - Obligations, Unpaid*. For each sampled item, we obtained documentation to support the adjustment to an obligation recorded in the prior year. Kearney & Company, P.C. (Kearney) noted the following control weaknesses:

1. Two of the samples Kearney selected were for corrections to obligations that were understated in FY 2017. For these two samples, S&L program officials approved post-commitment changes to the service start date; however, EPC did not reflect the revisions to the months of service, a key input for calculating the appropriate funding amount and recording an accurate obligation. Upon our inquiry, the S&L program office confirmed that there was an issue with EPC's system workflow[3] that impacted post-commitment changes for both service start and end dates. Although the S&L program stated that it fixed the EPC issue on January 24, 2018, USAC accounting was not aware that the post-commitment change resulted in a prior-period misstatement. Kearney requested that USAC analyze the total impact of the misstatement and noted that USAC overstated 243 FCDLs and understated 64 FCDLs.
2. One of the samples Kearney selected was for a FRN that was erroneously de-obligated and subsequently re-obligated because EPC did not process the approval of the Form 486 in a timely manner. Upon our inquiry, the S&L program office confirmed that there was a deficiency with EPC's system workflow that impacted the timely processing of Form 486 approval transactions. Kearney requested that USAC analyze the total impact of the misstatement; however, USAC was unable to quantify the impact of the error.

In FY 2016, USAC implemented EPC. USAC did not effectively test the functionality of EPC to ensure it met the needs of its users and posted complete and accurate transactions. In addition, the program office did not have controls in place to ensure the accuracy of the total months of service reimbursed when it made changes to the service start date. Further, accounting personnel did not have the ability to effectively review the accuracy of post commitment changes. Lastly, USAC did not have adequate lines of communication in place to ensure accounting personnel were aware of the EPC issue.

Because EPC recorded post-commitment changes inaccurately, USAC both understated and overstated Undelivered Orders – Obligations in FY 2017 by $65 million and $13.9 million, respectively. This resulted in a total net error of $51.1 million. In FY 2018, USAC overstated

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[1] Appeals can include funding requests, invoice extensions, and requests to extend service start and end dates.
[2] Post-commitment adjustments include any adjustments made to the FCDL after recording the initial commitment, including changes to the months of services reimbursed.
[3] System workflow refers to how an application is set up to perform a defined sequence of processes and tasks within the system itself.

Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations by $9.9 million[4] and Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries by $9.4 million.[5]

USAC was unable to quantify the impact of the Forms 486 that were not processed timely; therefore, Kearney performed our own analysis to quantify the impact. We estimate that USAC overstated Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations by $12.3 million and Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries by $12.3 million.

Further, because USAC did not comprehensively test EPC prior to its implementation, additional systemic errors may occur, go undetected, and result in material accounting errors.

<u>Inappropriate USAC De-Obligation Policy Over Canceled FRNs</u> – Kearney selected a sample of 43 transactions recorded to the USSGL Account 4871, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders - Obligations, Recoveries*. For each sampled item, we obtained documentation to support the adjustment to an obligation recorded in the prior year. One of the samples Kearney selected was for a cancellation requested by the applicant in FY 2017; however, USAC recorded the de-obligation in FY 2018. Kearney requested that USAC analyze the S&L population to identify similar situations. USAC's analysis, which Kearney reviewed, noted that applicants canceled 849 FRNs in prior years that were de-obligated in FY 2018.

USAC's cancellation accounting policy does not align with accounting standards issued by OMB. USAC Accounting agreed that an adjustment should be recorded to the financial statements to account for cancellation requests received as of September 30 but not processed in the same FY (pending cancellations). However, the S&L program's system of record, EPC, was unable to provide USAC Accounting the information necessary to quantify the materiality of pending cancellations that could cross FYs. As a result, USAC accounting did not develop an accrual methodology or develop a threshold for recording an accrual.

Because USAC did not record an accrual in FY 2017, USAC overstated Undelivered Orders – Obligations in FY 2017 by $21.5 million and overstated Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries in FY 2018 by $24.2 million. Further, because USAC did not record an accrual in FY 2018, Kearney performed an independent analysis of the potential error and estimated a FY 2018 understatement in Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations by $5.9 million and a FY 2019 overstatement of Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries by $7.8 million.

[4] Because many of the FCDLs expired prior to correcting the obligation, the understatements in FY 2017 do not match the overstatements in FY 2018. USAC Accounting monitors irregular activity, such as an entry to both 4871 and 4881 on the same day for the same amount and adjusts these entries.
[5] See Footnote 1 above.

Recommendations:

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

1. Ensure policies and procedures adequately address recording obligations and de-obligations in accordance with accounting standards issued by OMB. *[Repeat]*
2. Develop and implement test scenarios to ensure EPC functionality is operating effectively, meets the needs of its users, and posts complete and accurate transactions. The test scenarios should consider proper application of USAC's business rules and the design of the system's workflow. *[Updated]*
3. Ensure that quality review procedures adequately address recording obligations and de-obligations in the appropriate FY. *[Repeat]*
4. Enhance the lines of communication between Accounting personnel and the program offices, to include formal and detailed communication of operational and application issues as they arise. *[Updated]*
5. Coordinate with the S&L program, including their information technology (IT) support, and determine whether an EPC programming change can be made to provide the reporting functionality needed to quantify the materiality of pending cancellations that could cross FYs. *[New]*
6. Develop policies and procedures to monitor pending cancellation balances and establish accrual thresholds. *[New]*

Significant Deficiency

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

I. Information Technology

FCC uses information systems to compile information for financial reporting purposes, including its core financial management and accounting system, Genesis. Genesis is accessed through FCC's general IT support system. In addition, because FCC's financial statements include financial transactions relating to the USF programs, FCC relies upon general IT support systems and specific applications utilized by the administrator of the USF programs.

We have separately performed an evaluation of FCC's Information Security Program as required by the Federal Information System Modernization Act of 2014 (FISMA) and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could lead to significant misstatements of or corruption to the financial data needed for FCC's consolidated financial statements. We performed this work in accordance with the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as risk management, access controls, configuration management, and contingency planning. Other IT controls 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. Additionally, we performed risk-based procedures related to the general IT support system and financial application, Great Plains, utilized by USAC to administer the USF programs. The control deficiencies noted during our FISMA evaluation and our financial statement audit are summarized below. In aggregate, we consider these control deficiencies to be a significant deficiency.

<u>FCC General IT Support System</u> – Kearney noted that FCC took corrective actions to improve certain processes and remediate deficiencies identified in the FY 2017 FISMA evaluation. Most notably, FCC maintained an up-to-date and readily available systems inventory, enhanced its collection and reporting of qualitative and quantitative metrics, and developed information system contingency plans. Despite the progress made during FY 2017, we identified control deficiencies in multiple IT control areas, including Identity and Access Management and Information Security Continuous Monitoring (ISCM). These control deficiencies impacted FCC's general IT support system. FCC management stated that these efforts continue to require significant resources, delaying 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 significant resources to implement its information security policies and procedures and resolve deficiencies in the FCC Information Security Program and systems.

<u>FCC Financial Management System</u> – FCC's financial management and accounting system, Genesis, is hosted 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 FCC's systems, including Genesis. Therefore, IT deficiencies noted in the general IT support system, as described above, may impact Genesis as well. Further, we noted additional control deficiencies impacting Genesis beyond those inherited from FCC's general IT support system. Specifically, we noted that the FCC ineffectively designed the Genesis segregation of duties matrix, which we found was incomplete and contained inconsistencies.

<u>USAC Systems Utilized in Administering the USF Programs</u> – USAC administers the USF programs. Similar to FCC, USAC's general IT support system is the gateway for USAC's financial application, Great Plains. Kearney noted that USAC failed to properly manage user accounts with access to both the general IT support system and Great Plains.

In general, we noted that FCC had not implemented effective policies, procedures, and processes over its general support system, FCCNet, and its financial management system, Genesis. Additionally, Kearney determined that USAC had not implemented effective account management policies, procedures, and processes over its general support system and financial application, Great Plains. We consider the aggregation of these control deficiencies to be a significant deficiency.

Poor controls over IT security can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered, either accidentally or intentionally. IT deficiencies increase the risk that FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2018 FISMA evaluation report included 19 recommendations intended to improve the effectiveness of FCC's Information Security Program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, ISCM, Incident Response, and Contingency Planning. Fourteen of the recommendations related to FCC and five of the recommendations related to USAC. Of the 14 FCC recommendations, 12 related to FISCAM control areas. All five of the USAC recommendations related to FISCAM control areas.

Status of Prior-Year Findings and Recommendations

In the *Independent Auditor's Report on Internal Control Over Financial Reporting* included in the audit report on the FCC's FY 2017 financial statements,[6] Kearney noted two issues that were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2017 Status	FY 2018 Status
USF Budgetary Accounting	Significant Deficiency	Material Weakness
IT	Significant Deficiency	Significant Deficiency

During the FY 2017 financial statement audit, Kearney made specific recommendations to FCC related to the control deficiencies noted above to strengthen FCC's internal control environment over financial reporting. The status of the FY 2017 internal control recommendations is summarized in Table 2.

[6] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in the Federal Communications Commission's Fiscal Year 2017 Agency Financial Report.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2018 Status
USF Budgetary Accounting	Test scenarios for USAC business rules in EPC	Open
	Policies and procedures for recording de-obligations	Open
	Quality control reviews for proper recording of de-obligations in the appropriate FY	Open
	Lines of communication between Accounting personnel and the program offices	Open
IT[7]	Kearney issued 24 IT-related recommendations in FY 2017	12 Open 12 Closed

FCC's Responses to Findings

FCC's response to the findings identified in our audit is included in the memorandum from management titled *Commission's Response to Independent Auditor's Reports* included in FCC's Agency Financial Report. FCC's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements; accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control 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 *Government Auditing Standards* and OMB Bulletin No. 19-01 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, 2018

[7] Kearney issued 24 recommendations in the FY 2017 FISMA evaluation report. During FY 2018, FCC took appropriate action to close 12 recommendations, and we either updated or re-issued the 12 recommendations that remain open. The FY 2018 FISMA evaluation report includes additional, detailed information on each of the 24 prior-year recommendations.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, AND CONTRACTS

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, 2018, and we have issued our report thereon dated November 15, 2018. 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. 19-01, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01. Although our audit procedures did not identify any instances of noncompliance in fiscal year (FY) 2018, FCC management communicated a potential instance of noncompliance with the Antideficiency Act[1] that was identified in 2011. This potential noncompliance was still being researched by FCC as of September 30, 2018.

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 *Government Auditing*

[1] The Antideficiency Act prohibits the FCC from obligating or expending Federal funds in advance or in excess of an appropriation, as well as from accepting voluntary services.

Standards and OMB Bulletin No. 19-01 in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2018

Commission's Response to Independent Auditor's Reports

Office of the Managing Director

DATE: November 15, 2018

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Kathleen Heuer, Chief Financial Officer
Christine Calvosa, Acting 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 2018

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*. As always, the Federal Communications Commission (FCC or Commission) appreciates the efforts of the Office of Inspector General and its independent auditor, Kearney and Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the thirteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2018 present fairly, in all material respects, the financial position of the Commission as of September 30, 2018. These results demonstrate the Commission's commitment to effective internal controls and financial management.

Despite these successes, work remains here at the Commission. The FY 2018 audit report points out one material weakness related to Universal Service Fund (USF) budgetary accounting and one significant deficiency related to information technology (IT) controls. We concur with the recommendations made by the independent auditors in their reports.

With respect to the material weakness related to the control environment over USF budgetary accounting, this weakness relates to the potential risk of the Universal Service Administrative Company (USAC) incorrectly recognizing deobligations for the USF's Schools and Libraries program due to control issues with implementation of a funding system. The FCC will continue to work to fully remediate the auditor's recommendations related to this material weakness as quickly as possible.

With respect to the significant deficiency related to the FCC's and USAC's controls over their general support and financial systems, the FCC's and USAC's IT teams will both work to address the recommendations identified by the auditors. The FCC's commitment to addressing the auditors' concerns was demonstrated this year when the auditors closed 12 previous IT related recommendations during the FY 2018 audit process.

We look forward to working in FY 2019 to resolve the FY 2018 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens
Managing Director
Office of Managing Director

Kathleen Heuer
Chief Financial Officer
Office of Managing Director

Christine Calvosa
Acting Chief Information Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET
As of September 30, 2018 and September 30, 2017
(Dollars in thousands)

	FY 2018	FY 2017
Assets (Note 2):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 11,097,827	$ 12,790,101
Investments (Note 5)	2,886,961	7,101,239
Accounts receivable (Note 6)	429	491
Other	1,866	4,373
Total intragovernmental	13,987,083	19,896,204
Cash and other monetary assets (Note 4)	1,698	113,743
Accounts receivable, net (Note 6)	783,380	718,905
General property, plant, and equipment, net	78,013	62,117
Other	18,024	13,024
Total assets	$ 14,868,198	$ 20,803,993
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 3,186	$ 534
Other (Note 8)		
Custodial	3,511,422	8,637,202
Other	2,620	5,665
Total other	3,514,042	8,642,867
Total intragovernmental	3,517,228	8,643,401
Accounts payable	551,499	264,016
Federal employee and veteran benefits	2,984	2,978
Other (Note 8)		
Deferred revenue	1,205,713	2,114,141
Prepaid contributions	36,252	42,852
Accrued liabilities for Universal Service	524,358	515,910
Other	38,971	32,163
Total other	1,805,294	2,705,066
Total liabilities	$ 5,877,005	$ 11,615,461
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - Funds from dedicated collections (Note 10)	$ 600,000	$ -
Unexpended appropriations - All other funds	2,816	2,820
Cumulative results of operations - Funds from dedicated collections (Note 10)	8,077,259	8,907,714
Cumulative results of operations - All other funds	311,118	277,998
Total net position - Funds from dedicated collections (Note 10)	8,677,259	8,907,714
Total net position - All other funds	313,934	280,818
Total net position	8,991,193	9,188,532
Total liabilities and net position	$ 14,868,198	$ 20,803,993

The accompanying notes are an integral part of these statements

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2018 and 2017
(Dollars in thousands)

	FY 2018	FY 2017
Gross Program costs (Note 1 R)**:**		
Closing the Digital Divide		
Total Gross Cost	$ 8,809,668	
Promoting Innovation		
Total Gross Cost	1,827,302	
Protecting Consumers and Public Safety		
Total Gross Cost	65,832	
Reforming the FCC's Processes		
Total Gross Cost	95,934	
Promoting Economic Growth and National Leadership:		
Total Gross Cost		$ 5,891,473
Protecting Public Interest Goals:		
Total Gross Cost		74,314
Making Networks Work for Everyone		
Total Gross Cost		4,590,446
Promoting Operational Excellence:		
Total Gross Cost		118,497
Total Program Costs	$ 10,798,736	$ 10,674,730
Cost not assigned to programs:		
Other expenses	-	-
Less: earned revenues not attributed to programs	(472,263)	(518,063)
Net cost of operations	$ 10,326,473	$ 10,156,667

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, 2018 and 2017
(Dollars in thousands)

	FY 2018			FY 2017		
	Funds from Dedicated Collections (Note 10)	**All Other Funds**	**Consolidated Total**	**Funds from Dedicated Collections** (Note 10)	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations:						
Beginning Balances	$ -	$ 2,820	$ 2,820	$ -	$ 2,832	$ 2,832
Budgetary Financing Sources:						
Appropriations received	600,000	-	600,000	-	-	-
Appropriations used	-	(4)	(4)	-	(12)	(12)
Total Budgetary Financing Sources	600,000	(4)	599,996	-	(12)	(12)
Total Unexpended Appropriations	600,000	2,816	602,816	-	2,820	2,820
Cumulative Results from Operations:						
Beginning Balances (Note 1 R)	8,907,714	277,664	9,185,378	8,279,799	214,539	8,494,338
Budgetary Financing Sources:						
Appropriations used	-	4	4	-	12	12
Nonexchange revenue	9,543,325	-	9,543,325	9,111,745	-	9,111,745
Transfers in/out without reimbursement	-	-	-	1,750,000	-	1,750,000
Other	(6)	-	(6)	(242)	-	(242)
Other Financing Sources (Nonexchange):						
Imputed financing	-	13,691	13,691	-	9,974	9,974
Other	-	(27,542)	(27,542)	-	(23,448)	(23,448)
Total Financing Sources	9,543,319	(13,847)	9,529,472	10,861,503	(13,462)	10,848,041
Net Cost of Operations	10,373,774	(47,301)	10,326,473	10,233,588	(76,921)	10,156,667
Net Change	(830,455)	33,454	(797,001)	627,915	63,459	691,374
Cumulative Results of Operations	8,077,259	311,118	8,388,377	8,907,714	277,998	9,185,712
Net Position	$ 8,677,259	$ 313,934	$ 8,991,193	$ 8,907,714	$ 280,818	$ 9,188,532

The accompanying notes are an integral part of these statements

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2018 and 2017
(Dollars in thousands)

	FY 2018	FY 2017
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	(4,869,982)	(409,063)
Appropriations (discretionary and mandatory)	10,177,230	10,853,696
Spending authority from offsetting collections (discretionary and mandatory)	433,917	473,741
Total budgetary resources	$ 5,741,165	$ 10,918,374
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 11)	$ 11,059,379	$ 16,599,962
Unobligated balance, end of year:		
Apportioned, unexpired accounts	883,329	1,939,386
Exempt from apportionment, unexpired accounts (Note 1 A)	(6,209,089)	(7,628,102)
Unapportioned, unexpired account	7,091	6,441
Unexpired unobligated balance, end of year	(5,318,669)	(5,682,275)
Expired unobligated balance, end of year	455	687
Unobligated balance, end of year (total)	(5,318,214)	(5,681,588)
Total status of budgetary resources	$ 5,741,165	$ 10,918,374
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	10,047,317	10,125,172
Distributed offsetting receipts (-)	(93,049)	(96,232)
Agency outlays, net (discretionary and mandatory)	$ 9,954,268	$ 10,028,940

The accompanying notes are an integral part of these statements

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2018 and 2017
(Dollars in thousands)

	FY 2018	FY 2017
Total Custodial Revenue:		
Sources of Cash Collections:		
Spectrum Auctions	$ 895,646	$ 17,562,170
Fines and Penalties	712,281	28,069
Total Cash Collections	1,607,927	17,590,239
Accrual Adjustments (+/-)		
Spectrum Auctions	-	(21,321)
Fines and Penalties	(13,874)	(36,974)
Total Accrual Adjustments	(13,874)	(58,295)
Total Custodial Revenue (Note 16)	1,594,053	17,531,944
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(713,525)	(28,069)
Public Safety Trust Fund (NTIA)	(5,895,158)	-
TV Broadcasters Relocation Fund (FCC)	-	(1,750,000)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	5,125,780	(5,603,519)
Refunds and Other Payments		
Auctions Salaries & Expenses (FCC) (Note 13)	(111,150)	(117,000)
Reverse Incentive Auction Winners	-	(10,033,356)
Retained by the Reporting Entity	-	-
Total Disposition of Collections	(1,594,053)	(17,531,944)
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, 2018 and 2017
(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. The Commission is directed by five Commissioners who 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 two reporting components. The primary component consists of Commission headquarters and field offices. The additional component is the Universal Service Fund (USF). 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). Section 201 of Division P of the Consolidated Appropriations Act, 2018, P.L. 115–141, 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, 2019. 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.

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.

C. Fund Balance with Treasury

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

Note 1 – Summary of Significant Accounting Policies (continued)

D. Cash and Other Monetary Assets

Cash and Other Monetary Assets represent third party deposits and demand deposits at several commercial banks which are maintained by the Universal Service Administrative Company (USAC) and Rolka Loube, LLC (RL), serving as administrators. Demand deposits bear the names of those entities, as well as the Commission or the fund (TRS or USF), for which they serve as administrators. Cash on deposit for USF held outside of Treasury is collateralized by the Federal Reserve. Beginning in the third quarter of FY 2018, under the Commission's authorization, USAC started to use an account within Treasury for collection and disbursement. For more information, refer to Note 4.

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. As such, an additional allowance for doubtful accounts for the higher dollar value receivables may be recorded considering inherent uncertainties and risks.

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 and building 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 and building 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. Payments of all liabilities other than contracts can be abrogated by the U.S. Government, which is a sovereign entity, and its components, which includes the Commission. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the Lifeline program, and certain programs within High Cost and TRS. 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, Alternative Connected America Model (A-CAM), Alaska Plan, Frozen Support in high cost areas, and the 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.

Note 1 – Summary of Significant Accounting Policies (continued)

I. Accounts Payable and Accrued Liabilities (continued)

Accrued Liabilities for the TV Broadcaster Relocation Fund (TVF) represent liabilities for invoices received but not processed and for costs incurred but not invoiced related to relocation costs incurred by full power and Class A television licensees that were reassigned to new channels as a result of the Incentive Auction, as well as certain costs incurred by multichannel video program distributors (MVPDs) to continue to carry such stations signals. For this program, an accrued liability for invoices received but not processed and for costs incurred but not invoiced is made to Accounts Payable.

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 collects contributions from telecommunications carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

K. Retirement Plans and Other Benefits

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

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent (7%) 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 Savings 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 one percent (1%) of gross pay, match dollar-for-dollar on the first three percent (3%) of pay contributed each pay period, and match 50 cents on the dollar for the next two percent (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.

Note 1 – Summary of Significant Accounting Policies (continued)

K. Retirement Plans and Other Benefits (continued)

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 the 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.

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – Pursuant to 47 U.S.C. § 159, the Commission assesses and collects regulatory fees to recover the costs incurred in carrying out its mission through its strategic goals: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected in annual Appropriations Acts. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The Commission collected the appropriated regulatory fee levels of $322,035 for FY 2018 and $356,711 for FY 2017. The Commission also collected $9,233 above the required regulatory level in FY 2018 and $9,379 above the required level in FY 2017. The cumulative amount collected above the required annual regulatory level was $121,228 as of September 30, 2018. In addition, the cumulative amount collected above the required annual regulatory level has been precluded from obligation since FY 2008. Furthermore, the RAY BAUM'S Act of 2018, Division P of P.L. 115-141, requires the Commission to transfer all excess collections for FY 2018 and prior years to the General Fund of the Treasury for the sole purpose of deficit reduction. The RAY BAUM'S Act also requires the Commission to transfer any excess collections in FY 2019 and in subsequent years to the General Fund of the Treasury for the sole purpose of deficit reduction. For more information, refer to Note 18.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auctions program. Proceeds from the auctions are initially remitted to the Commission and are later transferred either to the Treasury or to the appropriate agency as required by applicable laws. Pursuant to 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 $111,150 for FY 2018 and $117,000 for FY 2017.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

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 $895,646 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2018 and $17,540,849 in FY 2017. In FY 2018, the Commission transferred $5,895,158 of custodial revenue from the Incentive Auction and Auction 97 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and $1,244 from other spectrum auctions to the Treasury General Fund. In FY 2017, the Commission paid $10,033,356 of Incentive Auction proceeds to reverse auction winners and transferred $1,750,000 to the TVF.

Application Fees (Exchange) – Pursuant to 47 U.S.C. § 158, the Commission collects application processing fees at such rates as the Commission establishes in a schedule of application fees to recover the costs of the Commission to process applications. Subparagraph b of section 158 requires the Commission to review and amend its schedule of application fees every two years based on the net change in the Consumer Price Index calculated over a specific period of time. Application fees are deposited in the Treasury and are not available for the Commission’s use. Application fee revenue totaled $27,542 in FY 2018 and $23,449 in FY 2017. The RAY BAUM’S Act of 2018 amended 47 U.S.C. § 158 with an effective date of October 1, 2018 for the amendments. Congress provided that application fees in effect before the effective date of the RAY BAUM’S Act shall remain in effect until the Commission adjusts or amends such fees. The Commission’s next amendment of the schedule of application fees will be based on the recently updated requirements in 47 U.S.C. § 158.

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 $841 in FY 2018 and $676 in FY 2017.

Allocation of Exchange Revenues – The Commission reports the entire balance of exchange revenue on the 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 $9,476,789 and $9,039,570 were received in FY 2018 and FY 2017, 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 has authorized the Commission to retain its appropriation as available until expended. The Commission’s no-year appropriations were $322,035 for FY 2018 and $356,711 for FY 2017. Regulatory fee collections fully funded the no-year appropriations for FY 2018 and FY 2017.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

Subsidy Estimates and Reestimates (Financing Source) – The Fair Credit Reporting Act (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 most recent subsidy reestimate was completed in September 30, 2015; OMB waived the requirement to perform a subsidy reestimate in FY 2018 and FY 2017. The last active loan matured in April 2007, and the Commission wrote off all remaining loans in FY 2013. As a result, no material activity related to direct loans has occurred in FY 2018 and FY 2017, and the Commission is working with OMB to close-out the Credit Reform Program.

N. Reprogramming

In FY 2018, $6,082 of prior year de-obligations were approved for reprogramming. The funds were requested to address a shortage in compensation and benefits as well as to provide necessary funding for information technology and security projects. In FY 2017, $4,970 of prior year de-obligated non-auction and auction funds were approved for reprogramming to fund a retroactive increase in the transit subsidy benefit as well as various information technology projects.

O. Disclosure Entities

The Commission is responsible for the overall management and oversight of the USF, including all USF policy decisions. USAC was established in 1997 as a not-for-profit subsidiary of the National Exchange Carrier Association (NECA), and that same year, the FCC appointed USAC as the permanent administrator, under the Commission's direction, of the USF and the four universal service support mechanisms. The four universal service support mechanisms are High Cost, Lifeline, Rural Health Care, and School and Libraries. USAC as the administrator of the USF is responsible for the effective administration of the programs, including billing, collection, and disbursement. Beginning in the third quarter of FY 2018, under the Commission's authorization, USAC started to use an account within Treasury for collection and disbursement.

NECA was established as a non-stock Delaware corporation, which, pursuant to FCC rules, files interstate access tariffs and administers interstate access revenue pools for local telephone companies throughout the United States of America and its territories. NECA performs data collection functions for the High Cost program and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. NECA has no management control over USAC and derives no economic benefits from this subsidiary relationship. NECA does not consolidate USAC since it does not meet the criteria for consolidation in accordance with the accounting standards for consolidation of all majority-owned subsidiaries. The investment in USAC, which is carried at cost, is insignificant to these financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

O. Disclosure Entities (continued)

Beginning in FY 2018, the Commission reported USAC and NECA as disclosure entities in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Neither USAC or NECA substantially meet the requirements to be considered consolidated entities. As of September 30, 2018, the likelihood is considered remote of any potential financial and non-financial risks or benefits for the Commission associated with the control of or involvement with USAC and NECA. Both USAC and NECA are not-for-profit corporations. USAC's Annual Reports are available at https://www.usac.org, while NECA's Annual Reports are available at https://www.neca.org.

The following table summarizes the balances and activities recognized in the Commission's financial statements due to transactions with USAC and NECA for the fiscal year ended September 30, 2018:

FY 2018	Universal Service Adminstrative Company (USAC)	National Exchange Carrier Association, Inc. (NECA)	Total Balances Associated with Disclosure Entities
Balance Sheet			
Other assets (Note 1 H)	$ 18,024	$ -	$ 18,024
Accounts payables[1]	9,602	66	9,668
Statement of Net Cost			
Net cost of operations [2]	$ 188,846	$ 455	$ 189,301
Statement of Changes in Net Position			
Net cost of operations [2]	$ 188,846	$ 455	$ 189,301

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.

[1]This portion in the accounts payable consists of the USF administrative fees due to USAC and NECA.
[2]This portion of the operation expenses includes the administrative fees incurred in USF. The Commission approves the administrative costs to 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Q. Incentive Auction

The Broadcast Incentive Auction was authorized by provisions in Title VI of the Middle Class Tax Relief and Job Creation Act of 2012, P.L. 112-96 (Spectrum Act). The Spectrum Act established the funding of the TVF at $1,750,000. The Spectrum Act states that the Commission shall reimburse relocation costs reasonably incurred by TV broadcasters (Full Power, Class A and MVPDs) that were involuntarily reassigned to new channels because of the repacking process. Obligations, expenses, and liabilities relating to approved reimbursements began in FY 2018, after the release of a Public Notice, DA 17-1015, on October 16, 2017 by the FCC setting the initial reimbursement allocation of the TVF for eligible broadcasters and MVPDs. In this Public Notice, the Commission established a total allocation slightly over $1 billion to reimburse eligible entities for expenses related to the construction of station facilities on reassigned channels. On April 16, 2018 the Commission issued another Public Notice, DA 18-372, which provided for the release of a further reimbursement allocation of $741,567.

Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, provided the TVF with additional funding, which increased the cap of the TVF to $2,750,000 and allowed new industry segments to be reimbursed. The additional $1,000,000 in funding will be appropriated over two years. In FY 2018, $600,000 was appropriated in the following manner: $350,000 for Full Power, Class A, and MVPDs; $150,000 for Translators and Low Power Television stations; $50,000 for FM Radio Stations; and $50,000 for consumer education. The remaining $400,000 of the increase will be appropriated in FY 2019.

R. Comparison and Other

In FY 2018, the Commission implemented Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Per paragraph 5 of SFFAS 47, this standard does not need to be applied to immaterial items. Starting in FY 2018, the Commission is excluding the North America Numbering Plan (NANP) from the Agency Financial Report due to its immateriality. The Commission will continue to monitor and review NANP's financial activity for the foreseeable future in order to ensure that the Commission is applying the appropriate accounting treatment. No restatement was necessary as a result of this change; however, the line item on the Consolidated Statement of Changes in Net Position Cumulative Results of Operations: Beginning Balances (FY 2018) excludes the NANP balance from the prior year (FY 2017) Cumulative Results of Operations.

Effective with FY 2018, the Commission began accounting for costs under its new strategic goals, covering FY 2018 through FY 2022, as presented in the FCC's FY 2018 Performance Plan. The FY 2017 strategic goals are listed separately from the FY 2018 strategic goals in the Statement of Net Costs since the prior year strategic goals are not readily comparable to the new strategic goals.

Beginning in the third quarter of FY 2018, under the Commission's authorization, USAC started to move the USF funds held outside of the Treasury to a newly established account within the Treasury. The USF funded securities that had not yet matured at the time of the USF's transition to Treasury will remain with the private banking institution until their maturity date, at which time, the remaining funds will be moved to the Treasury. Starting in May 2018, USF began using an account within Treasury for collections and disbursements.

Note 1 – Summary of Significant Accounting Policies (continued)

R. Comparison and Other (continued)

The presentation used for the Consolidated Statement of Changes in Net Position and the Combined Statement of Budgetary Resources prior to FY 2018, has been revised to reflect the new format prescribed in OMB Circular No. A-136.

Note 2 – Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2018 and 2017:

	FY 2018	FY 2017
Intragovernmental:		
Fund Balance with Treasury	$ 4,692,333	$ 10,710,394
Accounts Receivable	351	457
Total Intragovernmental	4,692,684	10,710,851
Accounts Receivable, Net	9,551	24,410
Total Non-entity Assets	4,702,235	10,735,261
Total Entity Assets	10,165,963	10,068,732
Total Assets	$ 14,868,198	$ 20,803,993

Non-entity Fund Balance with Treasury (FBWT) primarily represents auction deposits. Accounts receivable considered non-entity include regulatory fees, application fees, fines and forfeitures, spectrum auctions, and International Telecommunications Settlement (ITS) charges.

Note 3 – Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2018 and 2017:

	FY 2018	FY 2017
Unobligated Balance		
Available	$ (2,957,023)	$ 1,741,482
Unavailable	145,870	256,971
Obligated Balance not yet Disbursed	9,216,647	81,254
Non-Budgetary FBWT	4,692,333	10,710,394
Total	$ 11,097,827	$ 12,790,101

Note 3 – Fund Balance with Treasury (continued)

The FBWT includes general funds, revolving funds, special funds, and deposit funds.

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

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

Special Funds – Includes funds from TVF and USF. TVF is for relocation costs reasonably incurred by broadcasters and MVPDs who are involuntarily reassigned to new channels or incur reimbursable expenses as a result of the Incentive Auctions post-auction repacking process. USF funds are for the four Universal Service support mechanisms. These four mechanisms are exempt from the application of the provisions of the Antideficiency Act by Congress through December 31, 2019, and are not subject to an apportionment by OMB. Starting in May 2018, USAC began moving USF funds held in a private banking institution to an account within Treasury.

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, 2018 and 2017:

	FY 2018	FY 2017
Cash and Other Monetary Assets	$ 1,698	$ 113,743

TRS contributions and related accrued interest being held for distribution 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. The RAY BAUM'S Act of 2018 requires upfront payments of auction bidders to be deposited directly into the Treasury instead of an interest bearing commercial bank account starting October 1, 2018. For more information, refer to Note 18. Interest earned on TRS contributions is reinvested. During FY 2018, any interest earned on auction upfront payments was transferred to the Treasury General Fund.

In FY 2018, Cash and Other Monetary Assets included $1,698 in TRS contributions and related accrued interest being held for distribution.

In FY 2017, Cash and Other Monetary Assets included $111,066 in USF contributions and related accrued interest being held for distribution as well as $2,677 in other deposits and related accrued interest.

Note 5 – Investments

The following summarizes Investments as of September 30, 2018 and 2017:

FY 2018	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 172,621	EI	$ 240	$ -	$ 172,861	$ 172,853
Treasury Notes	2,702,984	EI	5,232	5,884	2,714,100	2,682,338
Total	$ 2,875,605		$ 5,472	$ 5,884	$ 2,886,961	$ 2,855,191
FY 2017						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 1,959,505	EI	$ 1,631	$ -	$ 1,961,136	$ 1,961,232
Treasury Notes	5,124,411	EI	4,597	11,095	5,140,103	5,104,783
Total	$ 7,083,916		$ 6,228	$ 11,095	$ 7,101,239	$ 7,066,015

EI - Effective Interest Method

All Treasury securities, regardless of their maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustments have been made to present market value in FY 2018 and FY 2017. All investments are held by USF and are also recognized as part of Note 10 – Funds from Dedicated Collections.

Beginning in the third quarter of FY 2018, USAC started to move the USF funds held outside of Treasury to a newly established account within the Treasury. The USF funded securities that had not yet matured at the time of the USF's transition to Treasury will remain with the private banking institution until their maturity date, at which time, the funds will be moved to the account within Treasury.

In the second quarter of FY 2018 and prior, the cash receipts collected from the public for the USF were used to purchase Federal securities. Therefore, the Commission expects decreases in the portfolio balances as the securities mature and the funds are moved to the account within Treasury instead of being used for the purchase of 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 U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Note 6 – Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2018 and 2017:

	Intragovernmental	Public	Total
FY 2018			
Gross Accounts Receivable	$ 429	$ 1,582,711	$ 1,583,140
Allowance for Doubtful Accounts	-	(799,331)	(799,331)
Accounts Receivable, Net	$ 429	$ 783,380	$ 783,809
FY 2017			
Gross Accounts Receivable	$ 491	$ 1,339,811	$ 1,340,302
Allowance for Doubtful Accounts	-	(620,906)	(620,906)
Accounts Receivable, Net	$ 491	$ 718,905	$ 719,396

The following summarizes accounts receivable by type as of September 30, 2018 and 2017:

	FY 2018			FY 2017		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,102,606	$ (333,352)	$ 769,254	$ 986,993	$ (299,472)	$ 687,521
COMAD - Schools and Libraries	162,998	(158,434)	4,564	151,246	(148,085)	3,161
Regulatory Fees	30,540	(24,348)	6,192	30,890	(23,725)	7,165
Spectrum Auction	8,707	(8,707)	-	8,707	(8,707)	-
Civil Monetary Penalties	267,769	(266,885)	884	148,190	(133,228)	14,962
Other	10,520	(7,605)	2,915	14,276	(7,689)	6,587
Total	$ 1,583,140	$ (799,331)	$ 783,809	$ 1,340,302	$ (620,906)	$ 719,396

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 receivables for Schools and Libraries recorded an allowance rate of 97% in FY 2018 and 98% in FY 2017.

Note 7 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2018 and 2017:

	FY 2018	FY 2017
Intragovernmental:		
FECA Liability	$ 561	$ 536
Unemployment Liability	-	48
GSA Real Estate Taxes	-	2,995
Total Intragovernmental	561	3,579
Actuarial FECA Liability	2,984	2,978
Other:		
Unfunded Leave	17,467	17,540
Energy Savings Performance Contract	7,607	-
Accrued Liabilities for Universal Service	524,358	515,910
Total liabilities not covered by budgetary resources	552,977	540,007
Total liabilities covered by budgetary resources	626,984	11,075,454
Total liabilities not requiring budgetary resources	4,697,044	-
Total Liabilities	$ 5,877,005	$ 11,615,461

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

Liabilities not requiring budgetary resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources. In FY 2018, OMB Circular No. A-136, *Financial Reporting Requirements,* required agencies to include a separate line for Total liabilities not requiring budgetary resources. OMB's guidance also provided that the prior year information did not need to be reported for this new requirement. As such, the information related to Total liabilities not requiring budgetary resources for FY 2017 was not calculated.

Note 8 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2018 and 2017:

FY 2018	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 3,511,422	$ 3,511,422
Other	-	2,620	2,620
Total Intragovernmental	$ -	$ 3,514,042	$ 3,514,042
Deferred Revenue	$ 26,188	$ 1,179,525	$ 1,205,713
Prepaid Contributions	-	36,252	36,252
Accrued Liabilities for Universal Service	-	524,358	524,358
Other	6,880	32,091	38,971
Total Other	$ 33,068	$ 1,772,226	$ 1,805,294

FY 2017	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 8,637,202	$ 8,637,202
Other	-	5,665	5,665
Total Intragovernmental	$ -	$ 8,642,867	$ 8,642,867
Deferred Revenue	$ 28,576	$ 2,085,565	$ 2,114,141
Prepaid Contributions	-	42,852	42,852
Accrued Liabilities for Universal Service	-	515,910	515,910
Other	-	32,163	32,163
Total Other	$ 28,576	$ 2,676,490	$ 2,705,066

The Custodial Liability includes both cash collected and net accounts receivable being held for transfer to the Treasury 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 multi-year regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the Commission.

Prepaid Contributions include USF contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service primarily represent anticipated future payments for the Lifeline program, and certain support mechanisms within the High Cost program and TRS. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, Energy Saving Performance Contract, 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's current headquarters lease expired on October 17, 2017. On December 18, 2016, the General Services Administration (GSA) signed a lease with a new lessor contemplating the Commission's occupancy of a newly built facility. The FCC's current lessor, a bidder on the solicitation for the new lease, had filed protests of the lease solicitation, first with GSA, and then with the U.S. Government Accountability Office (GAO). The protests were denied. The current lessor thereafter filed a solicitation protest with the U.S. Court of Federal Claims (COFC), which was supplemented with other pre-award protest issues, and that protest was denied in November 2016. Upon award of the new lease to a different lessor, the current lessor sought an injunction against performance of the new lease while it pursued an appeal in the U.S. Court of Appeals for the Federal Circuit against the COFC decision. Subsequently, the parties suspended the appeal. The construction of the new building is ongoing, and the FCC is anticipating to move in 2020. GSA is negotiating the construction schedule which will allow the FCC to refine the timing of the move. GSA negotiated a lease extension until November 2020 for the FCC's existing headquarters.

In accordance with the Department of Energy's Federal Energy Management Program's Energy Savings Performance Contracts, the Commission entered into a contract with Honeywell Building Solutions, Inc. (HBS) in the third quarter of FY 2017 to construct and install infrastructure in four facilities (Livermore CA, Waipahu HI, Powder Springs GA, and Columbia MD). The contract with HBS is a fixed price, performance-based contract that is paid over time through generated energy cost and operational savings. The contract enables the FCC to fund energy saving projects with up-front capital and a financing arrangement with HBS through the remaining implementation period. In the event of cancelling the task order before the end of FY 2037, the Commission shall remain liable for the project's outstanding principal balance along with a two percent (2%) termination premium. The likelihood of termination is remote as of September 30, 2018.

The $1,750,000 TVF was created by Congress in the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96) to reimburse costs reasonably incurred by TV broadcasters that are involuntarily reassigned to new channels as a result of the Incentive Auctions post-auction repacking process. Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, provided the TVF with additional funding, which increased the cap of the TVF to $2,750,000 and allowed additional industry segments to be reimbursed. In FY 2018, the Commission has made a total of $1,742,852 in fund allocations for eligible recipients. Accrued Liabilities are recorded in the TVF for invoices received but not processed and for costs incurred but not invoiced pertaining to reimbursements for broadcasters and MVPDs. Since FY 2018 is the first year for reimbursements under the TV relocation program, the Commission had limited historical data to use when calculating its accrued liabilities. According to SFFAS 5, *Accounting for Liabilities*: ". . . the estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed." While the Commission was able to estimate the low-end of the range in the amount of $218,906, the Commission determined that the high-end of the range could not be reliably measured based on historical events or information provided by the broadcasters and MVPDs. An accrued liability of $218,906 has been recorded for invoices received but not processed and for costs incurred but not invoiced as of September 30, 2018.

Note 9 – Commitments and Contingencies (Continued)

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, 2018, 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 Funds. 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 Fund 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.

As previously discussed, pursuant to the Spectrum Act, the Commission shall reimburse relocation costs reasonably incurred by TV Broadcasters and MVPDs who are involuntarily reassigned to new channels or incur costs as a result of the Incentive Auctions post-auction repacking process. In FY 2018, Congress provided additional funding and allowed additional industry segments to be reimbursed. These reimbursement costs are accounted for in the U.S. Budget as the "TV Broadcaster Relocation Fund" which is funded by forward auction proceeds and direct appropriations. The Commission recognized the transfer to TVF as Transfers in without reimbursement on its Statement of Changes in Net Position, and the reimbursement costs as program expenses on the Statement of Net Cost.

The Commission had no activity related to Gifts and Bequests in FY 2018 and FY 2017.

The following pages summarize the significant assets, liabilities, and related costs incurred related to the USF and TVF as of September 30, 2018 and 2017:

Note 10 – Funds from Dedicated Collections (Continued)

		TVF		USF		Total Funds from Dedicated Collections
FY2018						
Balance Sheet as of September 30, 2018						
Assets:						
Fund Balance with Treasury	$	2,134,077	$	3,929,106	$	6,063,183
Investments		-		2,886,961		2,886,961
Cash and other monetary assets		-		1,698		1,698
Accounts receivable, net		-		774,734		774,734
General property, plant, and equipment, net		-		26,737		26,737
Other assets		-		18,024		18,024
Total assets	$	2,134,077	$	7,637,260	$	9,771,337
Liabilities:						
Accounts payable	$	222,563	$	297,810	$	520,373
Deferred revenue		-		13,095		13,095
Prepaid contributions		-		36,252		36,252
Accrued liabilities		-		524,358		524,358
Total liabilities	$	222,563	$	871,515	$	1,094,078
Unexpended Appropriations	$	600,000	$	-	$	600,000
Cumulative results of operations		1,311,514		6,765,745		8,077,259
Total liabilities and net position	$	2,134,077	$	7,637,260	$	9,771,337
Statement of Net Cost for the Period Ended September 30, 2018						
Net cost of operations	$	438,486	$	9,935,288	$	10,373,774
Statement of Changes in Net Position for the Period Ended September 30, 2018						
Unexpended Appropriations						
Appropriations received	$	600,000	$	-	$	600,000
Cumulative results from operations						
Beginning Balances		1,750,000		7,157,714		8,907,714
Non-exchange revenue		-		9,543,325		9,543,325
Other financing sources		-		(6)		(6)
Net cost of operations		438,486		9,935,288		10,373,774
Change in net position		(438,486)		(391,969)		(830,455)
Cumulative results of operations		1,311,514		6,765,745		8,077,259
Net position	$	1,911,514	$	6,765,745	$	8,677,259

Note 10 – Funds from Dedicated Collections (Continued)

FY 2017	TVF	USF	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2017			
Assets:			
Fund Balance with Treasury	$ 1,750,000	$ -	$ 1,750,000
Investments	-	7,101,239	7,101,239
Cash and other monetary assets	-	111,066	111,066
Accounts receivable, net	-	691,607	691,607
General property, plant, and equipment, net	-	36,670	36,670
Other assets	-	13,024	13,024
Total assets	$ 1,750,000	$ 7,953,606	$ 9,703,606
Liabilities:			
Accounts payable	$ -	$ 229,878	$ 229,878
Deferred revenue	-	7,268	7,268
Prepaid contributions	-	42,836	42,836
Accrued liabilities	-	515,910	515,910
Total liabilities	$ -	$ 795,892	$ 795,892
Unexpended Appropriations		$ -	$ -
Cumulative results of operations	$ 1,750,000	$ 7,157,714	$ 8,907,714
Total liabilities and net position	$ 1,750,000	$ 7,953,606	$ 9,703,606
Statement of Net Cost for the Period Ended September 30, 2017			
Net cost of operations	$ -	$ 10,233,588	$ 10,233,588
Statement of Changes in Net Position for the Period Ended September 30, 2018			
Cumulative results from operations			
Beginning Balances	$ -	$ 8,279,799	$ 8,279,799
Non-exchange revenue	-	9,111,745	9,111,745
Transfers in/out without reimbursement	1,750,000	-	1,750,000
Other financing sources	-	(242)	(242)
Net cost of operations	-	10,233,588	10,233,588
Change in net position	1,750,000	(1,122,085)	627,915
Cumulative results of operations	1,750,000	7,157,714	8,907,714
Net position	$ 1,750,000	$ 7,157,714	$ 8,907,714

Note 11 – 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, 2018 and 2017:

	FY 2018	FY 2017
Direct:		
Category B	$ 3,537,223	$ 1,598,981
Exempt from Apportionment	7,521,244	15,000,278
Total Direct	11,058,467	16,599,259
Reimbursable:		
Category B	912	703
New obligations and upward adjustments (total)	$ 11,059,379	$ 16,599,962

Category B – Apportioned by Purpose

Note 12 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $13,936,671 as of September 30, 2018 and $14,466,783 as of September 30, 2017. The following summarizes Undelivered Orders as of September 30, 2018:

FY 2018	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 4,823	$ 13,911,958	$ 13,916,781
Undelivered Orders-Paid	1,866	18,024	19,890
Total	$ 6,689	$ 13,929,982	$ 13,936,671

Note 13 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs, subsidy costs incurred under credit reform programs, and the development and implementation costs related to the 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 the TRS 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. For Federal budgetary purposes, these contributions are accounted for as a special fund known as the Universal Service Fund.

Note 13 – Permanent Indefinite Appropriations (Continued)

Credit reform is 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 instead are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Pursuant to 47 U.S.C. § 309(j)(8)(B), the FCC can retain proceeds from spectrum auctions for amounts that 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 2018 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $111,150.

Note 14 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $322,035 in FY 2018 and $356,711 in FY 2017 are precluded from obligation. In addition, the cumulative amount collected above the required annual regulatory level from prior years has been temporarily precluded from obligation since FY 2008. The RAY BAUM'S Act of 2018 requires the Commission to transfer all excess regulatory fee collections for FY 2018 and prior years to the General Fund of the Treasury for the sole purpose of deficit reduction. The RAY BAUM'S Act also requires the Commission to transfer any excess collections in FY 2019 and in subsequent years to the General Fund of the Treasury for the sole purpose of deficit reduction. For more information, refer to Note 1 M and Note 18.

Note 15 – 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 2017 and the amounts presented in the FY 2019 Budget of the United States Government. The FY 2020 Budget of the United States Government, which will include actual numbers for FY 2018, has not been published at this time. Pursuant to 31 USC § 1105, the Budget of the United States Government will be released not later than the first Monday in February, and will be available at the following website: https://www.whitehouse.gov/omb/budget/.

Note 16 – 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 be deposited in the Treasury General Fund. Fines and Forfeitures are made up of consent decrees and forfeiture orders. Forfeiture orders are probable, measurable, and legally enforceable claims, but need to result in a judgement issued by a Federal court before they become legally collectible debts. Consent decrees are legally collectible debts. Additionally, the Commission reports exchange revenue associated with radio spectrum auction proceeds on the Statement of Custodial Activity. For more information, refer to Note 1 M.

Note 17 – Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)

As of September 30, 2018 and 2017:

	FY 2018	FY 2017
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New obligations and upward adjustments	$ 11,059,379	$ 16,599,962
Less: spending authority from offsetting collections and recoveries	1,245,522	1,370,426
Obligations net of offsetting collections and recoveries	9,813,857	15,229,536
Less: offsetting receipts	93,049	96,232
Net obligations	9,720,808	15,133,304
Imputed financing	13,691	9,974
Other Resources	(27,542)	(23,690)
Total Resources Used to Finance Activities	9,706,957	15,119,588
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	530,112	(5,051,024)
Resources that Fund expenses recognized in prior periods	(97)	(1,065)
Budgetary offsetting collections and receipts that do not affect net cost of operations	93,058	96,236
Resources that finance the acquisition of assets	(36,169)	(29,217)
Other	(32,071)	1,255
Total Resources Used to Finance Items not Part of the Net Cost of Operations	554,833	(4,983,815)
Total Resources Used to Finance the Net Cost of Operations	10,261,790	10,135,773
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(121)	(1,040)
Increase in exchange revenue receivable from the public	(1,457)	(4,767)
Depreciation and amortization	20,868	17,008
Revaluation of assets or liabilities (+/-)	(6)	-
Other (+/-)	45,399	9,693
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	64,683	20,894
Net Cost of Operations	$ 10,326,473	$ 10,156,667

Note 18 – Subsequent Event

The RAY BAUM'S Act of 2018 requires the Commission to transfer all excess collections above the required annual regulatory level for FY 2018 and prior years to the General Fund of the Treasury for the sole purpose of deficit reduction. The RAY BAUM'S Act also requires the Commission to transfer any excess offsetting collections in FY 2019 and in subsequent years to the General Fund of the Treasury for the sole purpose of deficit reduction. On October 1, 2018, the Commission transferred the cumulative amount of $121,228 of excess offsetting collections to the Treasury General Fund. For more information, refer to Note 1 M.

Starting in FY 2019, the RAY BAUM'S Act of 2018 requires that upfront payments of auction bidders be deposited directly in the Treasury instead of in an interest bearing commercial bank account. Upfront payments for Auction 101 which is scheduled to begin on November 14, 2018 will be deposited into the Treasury in October 2018.

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2018 and 2017
(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, TVF, and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auction program. The TVF represents reimbursements for Incentive Auction relocation costs for TV broadcasters and MVPDs. USF includes the USF and TRS Funds. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the chart below are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2018 and 2017 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2018	S&E	Auctions	TVF	USF	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	92,535	33,593	1,629,250	(6,628,197)	2,837	(4,869,982)
Appropriations (discretionary and mandatory)	-	-	720,750	9,456,480	-	10,177,230
Spending authority from offsetting collections (discretionary and mandatory)	322,758	111,150	-		9	433,917
Total budgetary resources	$ 415,293	$ 144,743	$ 2,350,000	$ 2,828,283	$ 2,846	$ 5,741,165
Adjustment to unobligated balance brought forward, October 1						
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 333,071	$ 107,692	$ 1,742,852	$ 8,875,756	$ 8	$ 11,059,379
Unobligated balance, end of year:						
Apportioned, unexpired accounts	78,030	33,755	607,148	161,616	2,780	883,329
Exempt from apportionment, unexpired accounts	-	-	-	(6,209,089)	-	(6,209,089)
Unapportioned, unexpired accounts	3,737	3,296	-	-	58	7,091
Unexpired unobligated balance, end of year	81,767	37,051	607,148	(6,047,473)	2,838	(5,318,669)
Expired unobligated balance, end of year	455	-	-	-	-	455
Unobligated balance, end of year (total)	82,222	37,051	607,148	(6,047,473)	2,838	(5,318,214)
Total status of budgetary resources	$ 415,293	$ 144,743	$ 2,350,000	$ 2,828,283	$ 2,846	$ 5,741,165
Outlays, Net:						
Outlays, net (discretionary and mandatory)	(3,992)	(8,607)	215,923	9,843,999	(6)	10,047,317
Distributed offsetting receipts (-)	(29,276)	-	-	(63,773)	-	(93,049)
Agency outlays, net (discretionary and mandatory)	$ (33,268)	$ (8,607)	$ 215,923	$ 9,780,226	$ (6)	$ 9,954,268

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2017	S&E	Auctions	TVF	USF	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	$ 73,560	$ 18,369	$ -	$ (503,736)	$ 2,744	$ (409,063)
Appropriations (discretionary and mandatory)	-	-	1,629,250	9,224,446	-	10,853,696
Spending authority from offsetting collections (discretionary and mandatory)	356,737	117,000	-	-	4	473,741
Total budgetary resources	$ 430,297	$ 135,369	$ 1,629,250	$ 8,720,710	$ 2,748	$ 10,918,374
Adjustment to unobligated balance brought forward, October 1						
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 343,028	$ 105,995	$ -	$ 16,150,908	$ 31	$ 16,599,962
Unobligated balance, end of year:						
Apportioned, unexpired accounts	83,181	26,372	1,629,250	197,904	2,679	1,939,386
Exempt from apportionment, unexpired accounts	-	-	-	(7,628,102)	-	(7,628,102)
Unapportioned, unexpired accounts	3,412	2,991	-	-	38	6,441
Unexpired unobligated balance, end of year	86,593	29,363	1,629,250	(7,430,198)	2,717	(5,682,275)
Expired unobligated balance, end of year	676	11	-	-	-	687
Unobligated balance, end of year (total)	87,269	29,374	1,629,250	(7,430,198)	2,717	(5,681,588)
Total status of budgetary resources	$ 430,297	$ 135,369	$ 1,629,250	$ 8,720,710	$ 2,748	$ 10,918,374
Outlays, Net:						
Outlays, net (discretionary and mandatory)	$ (37,870)	$ (14,774)	$ -	$ 10,177,807	$ 9	$ 10,125,172
Distributed offsetting receipts (-)	(25,999)	-	-	(70,233)	-	(96,232)
Agency outlays, net (discretionary and mandatory)	$ (63,869)	$ (14,774)	$ -	$ 10,107,574	$ 9	$ 10,028,940

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