Federal Communications Commission

# Audit of
# Federal Communications Commission's
# FY 2019 Financial Statements

## Report Number

19-AUD-07-04

November 19, 2019

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# II. FINANCIAL STATEMENTS AND AUDITOR'S REPORT

## Transmittal from Office of Inspector General

**OFFICE OF INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** November 19, 2019

**TO:** Chairman

**FROM:** Inspector General for RX, AIGA

**SUBJECT:** Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2019

As required by the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the Federal Communications Commission's (FCC) fiscal year (FY) 2019 financial statements.

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

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.

- There were two repeat internal control significant deficiencies. A Universal Service Fund (USF) budgetary accounting finding that was reported as a material weakness in FY 2018 was downgraded to a significant deficiency. Also, a significant deficiency was reported for FCC and USF information technology (IT) controls.

- There were no reportable instances of noncompliance.

Kearney made three recommendations to strengthen processes and internal controls related to USF budgetary accounting. Additionally, Kearney reported that 21 recommendations included in the Federal Information Security Management Act (FISMA) report are intended to improve the effectiveness of IT controls that impact FCC and USAC systems. The details of all IT findings and recommendations are included in the separate FISMA evaluation report.

In connection with the contract, we reviewed Kearney's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to, and we do not express, opinions on the FCC's financial statements or internal control over financial reporting, or on compliance with laws and other matters. Kearney is wholly responsible for the attached auditor's report dated, November 19, 2019, and the conclusions expressed therein. However, our review disclosed no 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

# Independent Auditor's Report

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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, 2019 and 2018, 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, as well as 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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 in order to design audit procedures that are appropriate in 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.

## 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, 2019 and 2018, and its net cost of operations, 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 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 (FASAB), who 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 regarding 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 taken as a whole. The information in the *Message from the Chairman* and the *Other Information* sections are presented for purposes 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. 19-03, we have also issued reports, dated November 19, 2019, on our consideration of FCC's internal control over financial reporting and on our tests of FCC's compliance with provisions of laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2019. 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 and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 19, 2019

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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, 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. 19-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FCC's consolidated financial statements, and have issued our report thereon dated November 19, 2019.

## 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 opinions 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. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

**FCC's Responses to Findings**

FCC's response to the findings identified in our audit is included in the memorandum from management, entitled *Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2019*, included in FCC's Agency Financial Report. FCC's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, 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. 19-03 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 19, 2019

## Schedule of Findings

### Significant Deficiencies

### I. USF Budgetary Resources Deficiencies

**Background:** Through the Universal Service Fund's (USF) Rural Health Care (RHC) program, the Federal Communications Commission (FCC) helps health care providers pay for telecommunications and internet services. The RHC program delivers support through three distinct programs: the Rural Health Care Telecommunication and Internet Access Program, the Healthcare Connect Fund Program, and the Rural Health Care Pilot Program. The Universal Service Administrative Company (USAC) administers the RHC program on behalf of FCC. Additionally, through the USF's 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. USAC, with the assistance of a third-party service organization, administers the S&L program on behalf of FCC.

Eligible health care providers and schools, districts, and libraries apply to participate in the RHC and S&L programs, respectively. 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 applicants must submit invoices. When USAC issues an FCDL, accounting personnel record an obligation in USAC's accounting system and assign a Funding Request Number (FRN). As invoices are paid, USAC's accounting personnel reduce the obligated balance. S&L FRNs normally have an invoicing deadline either 120 days after the last day to receive services or 120 days after the Form 486 notification date, whichever is later. Applicants are able to request a one-time invoice deadline extension of 120 days on or before the initial invoicing deadline.

Under the S&L program, all applicants indicate a service organization when they submit the initial applications. USAC assigns a unique identifier to each service organization, which is the Service Provider Identification Number (SPIN). Applicants are able to change from the service organization initially indicated to another service organization no earlier than the date of the FCDL and no later than the last date to submit an invoice. There are three different types of SPIN changes: a Corrective SPIN change, an Operational SPIN change, and a Global SPIN change. A Corrective SPIN change occurs when the applicant or USAC makes a data entry error that results in incorrect SPIN information associated with an FRN. An Operational SPIN change occurs when an applicant requests a change to the current service organization associated with the FRN. Lastly, a Global SPIN change occurs when a larger company purchases a smaller company (or companies) and ultimately acquires the company's customers. For each of these types of SPIN changes, USAC changes the SPIN for each FRN affected to reflect the new SPIN.

S&L utilizes the E-Rate Productivity Center (EPC), an account and application management system, to track and manage applicant information. E-rate Program participants use EPC to submit documentation related to funding commitment adjustments, receive notifications, and contact customer service. In addition, S&L utilizes a legacy system to track and manage applicant information for older FRNs. USAC and its third-party service organization also use EPC and the legacy system to support their daily operations, including tracking appeals, SPIN changes, Revised Funding Commitment Decision Letters (RFCDL), and invoice deadline dates.

Under the RHC program, applicants can request to cancel program funding commitments. When an applicant requests a cancellation of funding, RHC program personnel review the cancellation request and process a de-obligation. At the end of each fiscal year (FY), RHC provides the USAC accounting team with a list of FRNs that are approved for cancellation that remained unprocessed. USAC accounting personnel record an accrual entry to account for the de-obligation of these FRNs and reverse the entry in the subsequent FY.

**Condition:** Based on a sample of 217 budgetary transactions[1] recorded as of June 30, 2019, USAC had the following deficiencies in internal controls supporting obligations or adjustments to obligations recorded in the prior year:

1. One of the samples selected was for a RHC FRN that was erroneously re-obligated and de-obligated due to an incorrect reversing entry. USAC accounting personnel recorded an entry to accrue an unprocessed cancellation requested by the applicant in FY 2018. At the beginning of FY 2019, the accrual entry automatically reversed and created a new obligation. Upon processing the cancellation in FY 2019, USAC recorded an entry to prior-year downward adjustments. Kearney & Company, P.C. (Kearney) obtained the FY 2018 accrual entry and found that USAC erroneously re-obligated and de-obligated 34 FRNs. *[Condition #1]*

2. One of the samples selected was for a S&L FRN that was incorrectly obligated. S&L inappropriately approved an appeal for an applicant that requested funding during FY 2000. S&L should not have obligated funding for this FRN. *[Condition #2]*

3. One of the samples selected was for an S&L FRN that was erroneously re-obligated due to a Global SPIN change. During this process, S&L changed the SPINs on expired FRNs that had previously been de-obligated. Kearney obtained a listing of all FRNs affected by this Global SPIN change and found that USAC erroneously re-obligated 23 FRNs. *[Condition #3]*

[1] The 217 budgetary transactions tested included normal balance United States Standard General Ledgers (USSGL) 4801, *Undelivered Orders*, *Obligations*, 4871 – *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations*, and 4881, *Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations*.

4. One of the samples selected was for an S&L FRN that expired, resulting in a de-obligation of funding; however, the applicant requested an invoice deadline extension prior to the FRN's expiration. Kearney obtained a listing of all FRNs for which the applicant requested an invoice deadline extension, but S&L did not process the request timely. We found that USAC erroneously de-obligated and subsequently re-obligated 220 FRNs. *[Condition #4]*

5. One of the samples selected was for a Public Notice for which FCC ordered USAC to extend an FRN's service delivery deadline, ultimately extending its invoice deadline date. However, USAC did not update the invoice deadline timely, which resulted in an erroneous de-obligation and re-obligation of funding. *[Condition #5]*

6. One of the samples selected was for an S&L FRN that received an RFCDL, which extended the invoice deadline date. USAC was not timely in its update of the invoice deadline date for this FRN at the time of the RFCDL issuance date, resulting in an erroneous de-obligation and re-obligation of funding. *[Condition #6]*

7. One of the samples selected was for an S&L FRN where the applicant submitted an appeal to extend the months of service. Although USAC denied the appeal, during the appeal review process, the initial reviewer increased the FRN's months of service. Once the denied appeal was processed, the increase in months of service resulted in an erroneous upward adjustment to funding. *[Condition #7]*

**Cause:** USAC accounting did not have proper controls in place to ensure the accuracy of reversing entries recorded for RHC funding cancellations. *[Condition #1]*

The S&L program office did not have adequate procedures to ensure FRNs processed in its legacy system were accurate. The legacy system did not perform the same validation checks, nor did it require the same level of review as EPC. *[Condition #2]*

USAC did not have proper controls in place to ensure the accuracy of changes made to each FRN affected by Global SPIN changes. *[Condition #3]*

S&L's processes are not in line with accounting standards cited in OMB Circular A-11. S&L's process is to update FRNs within 90 days of the issuance of a Public Notice, regardless of the impact the delay causes. *[Condition #5]*

USAC's previous process, which S&L updated as of July 26, 2019, for modifying invoice deadline dates involved submitting JIRA tickets to the Information Technology (IT) department to perform updates. This previous process caused delays in processing of invoice deadline extensions simultaneously with the RFCDLs. *[Condition #6]*

USAC did not have effective lines of communication in place to ensure accounting personnel were aware of invoice deadline extensions granted by the program offices after the invoicing deadline expired. *[Conditions #3, #4, #5, and #6]*

USAC did not have adequate controls in place to ensure the S&L reviewers appropriately updated FRN details in accordance with the final appeal decision. *[Condition #7]*

**Effect:** USAC's control deficiencies resulted in known errors that overstated FY 2019 *Undelivered Orders – Obligations Unpaid* by $35.2 million, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations* by $12.5 million, *Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations* by $1.7 million, and understated *Apportionments* by $24.4 million. Without improved processes and internal controls, additional errors in USAC's budgetary accounts are likely to continue.

**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 program rules and Government accounting standards, such as A-11. *[Conditions #1, #2, #3, #4, #5, #6, and #7 – Repeat]*

2. Require experienced personnel to perform additional quality control reviews for high-dollar FRNs processed in the legacy system. *[Condition #2 – New]*

3. Enhance the lines of communication between the accounting personnel and the program offices, to include formal and detailed communication of operational and application issues as they arise. *[Conditions #3, #4, #5, and #6 – Repeat]*

## II. Information Technology

**Background:** FCC uses information systems to compile information for financial reporting purposes, including FCC's core financial management and accounting system, Genesis. FCC's general IT support system serves as the gateway for users to access FCC information and information systems, including Genesis. 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 (i.e., USAC).

Kearney 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 core financial management system utilized by USAC to administer the USF programs, the Financial Operations System/Great Plains (FOS/GP), as well as USAC's S&L account and application management system, EPC. The FY 2019 FISMA evaluation report includes detailed information for each identified finding.

**Condition:** The following summarizes the IT control deficiencies noted during the FISMA evaluation and FISCAM testing in support of the financial statement audit. In aggregate, Kearney considers these control deficiencies to be a significant deficiency.

- **FCC General IT Support System** – The FY 2019 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC's general IT support system, including Identity and Access Management and Information Security Continuous Monitoring (ISCM). Most notably, FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for logical access, and FCC did not consistently remediate identified network vulnerabilities within the timeframes required by FCC policy.

- **Genesis** – FCC utilizes an external service organization to provide hosting services for Genesis. While the service organization is responsible for maintaining a number of IT controls, the FCC's general IT support system serves as the gateway for users to access 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, FCC did not maintain sufficient documentation to support that appropriate personnel (i.e., users' supervisors and application administrators) reviewed and approved the level of access assigned to Genesis user accounts created in FY 2019.

- **USAC Systems Utilized in Administering the USF Programs** – Similar to FCC, USAC's general IT support system is the gateway for users to access USAC's FOS/GP. USAC failed to properly manage user accounts with access to both the general IT support system and FOS/GP. Further, USAC failed to implement proper segregation of duties within EPC and did not effectively monitor IT controls maintained by an external service organization providing hosting services for EPC.

In general, FCC did not implement effective policies, procedures, and controls over its general IT support system and Genesis. Additionally, USAC did not implement effective security and account management policies, procedures, and processes over its general IT support system, FOS/GP, and EPC.

**Cause:** FCC's ongoing efforts to implement planned corrective actions, remediate longstanding IT deficiencies in its IT general support system, modernize legacy technologies, and fully implement all documented information security policies, procedures, and processes continue to require significant resources. Additionally, USAC's efforts, under FCC oversight, to remediate deficiencies in systems utilized in administering the USF programs remained incomplete due primarily to prioritization, timing, and resource constraints.

**Effect:** Inadequate controls over IT security can affect the integrity of financial applications, which increases the risk that unauthorized individuals could access sensitive financial information 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 2019 FISMA evaluation report included 24 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, Data Protection and Privacy, ISCM, and Incident Response. Fourteen of the recommendations related to FCC and 10 of the recommendations related to USAC. Of the 14 FCC recommendations, 11 related to FISCAM control areas. All 10 of the USAC recommendations related to FISCAM control areas.

## Appendix A: 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 Federal Communications Commission's (FCC) fiscal year (FY) 2018 financial statements,[2] Kearney & Company, P.C. (Kearney) noted two issues that were related to internal control over financial reporting. The status of the FY 2018 internal control findings is summarized in ***Exhibit 1***.

***Exhibit 1: Status of Prior-Year Findings***

| Control Deficiency | FY 2018 Status | FY 2019 Status |
|---|---|---|
| **Universal Service Fund (USF) Budgetary Accounting** | Material Weakness | Significant Deficiency |
| **Information Technology (IT)** | Significant Deficiency | Significant Deficiency |

During the FY 2018 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 2018 internal control recommendations is summarized in ***Exhibit 2***.

***Exhibit 2: Status of Prior-Year Recommendations***

| Related Control Deficiency | Recommendation Description | FY 2019 Status |
|---|---|---|
| **USF Budgetary Accounting** | Policies and procedures for recording de-obligations | Open |
| | Test scenarios for Universal Service Administrative Company (USAC) business rules in E-Rate Productivity Center (EPC) | Closed |
| | Quality control reviews for proper recording of de-obligations in the appropriate FY | Closed |
| | Lines of communication between Accounting personnel and the program offices | Open |
| | Quantify the materiality of pending cancellations that could cross FYs | Closed |
| | Policies and procedures to monitor pending cancellation balances and establish accrual thresholds | Closed |

[2] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in FCC's FY 2018 Agency Financial Report.

| Related Control Deficiency | Recommendation Description | FY 2019 Status |
| --- | --- | --- |
| **IT**[3] | Kearney issued 19 IT-related recommendations in FY 2018 | 15 Open<br>4 Closed |

[3] Kearney issued 19 recommendations in the FY 2018 FISMA evaluation report. During FY 2019, FCC took appropriate action to close four recommendations, and we either updated or re-issued the 15 recommendations that remain open. The FY 2019 FISMA evaluation report includes additional, detailed information on each of the 19 prior-year recommendations.

# Independent Auditor's Report on Compliance with Laws, Regulations, and Contracts

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

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

We have audited, 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. 19-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FCC's consolidated financial statements, and we have issued our report thereon dated November 19, 2019.

**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 certain provisions of laws, regulations, contracts, and grant agreements with which could have a direct and material effect on the determinations of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03. Although our audit procedures did not identify any instances of known noncompliance in fiscal year (FY) 2019, FCC management communicated potential instances of noncompliance with the Antideficiency Act[1] based on events that occurred in FY 2011 and FY 2019. These potential instances of noncompliance were still being researched by FCC as of September 30, 2019.

[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.

KEARNEY&
COMPANY

**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 Standards* and OMB Bulletin No. 19-03 in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 19, 2019

## Commission's Response to Independent Auditor's Reports

**UNITED STATES GOVERNMENT**
**FEDERAL COMMUNICATIONS COMMISSON**

***Office of the Managing Director***

**DATE:** November 19, 2019

**TO:** David L. Hunt, Inspector General

**FROM:** Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
John Skudlarek, Acting Chief Information Officer

**SUBJECT:** Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2019

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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 Laws, Regulations, Contracts, and Grant Agreements*. 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 fourteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2019 present fairly, in all material respects, the financial position of the Commission as of September 30, 2019. In addition, the results of the audit tests disclosed no instances of noncompliance or other matters that are required to be reported.

Despite this successful outcome, work remains here at the Commission. The FY 2019 audit report identified two significant deficiencies - one related to Universal Service Fund budgetary resources deficiencies and another related to information technology controls. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2020 to resolve the FY 2019 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

| | | |
|---|---|---|
| Mark Stephens | Jae Seong | John Skudlarek |
| Managing Director | Chief Financial Officer | Acting Chief Information Officer |
| Office of Managing Director | Office of Managing Director | Office of Managing Director |

## Principal Statements

### Federal Communications Commission
### Consolidated Balance Sheets
As of September 30, 2019 and 2018
(Dollars in thousands)

| | FY 2019 | FY 2018 |
|---|---|---|
| **Assets** (Note 2): | | |
| **Intragovernmental**: | | |
| Fund Balance with Treasury (Note 3) | $ 14,516,697 | $ 11,097,827 |
| Investments (Note 5) | 307,899 | 2,886,961 |
| Accounts receivable (Note 6) | 449 | 429 |
| Other | 1,241 | 1,866 |
| **Total intragovernmental** | 14,826,286 | 13,987,083 |
| Cash and other monetary assets (Note 4) | 5,437 | 1,698 |
| Accounts receivable, net (Note 6) | 893,321 | 783,380 |
| General property, plant, and equipment, net | 72,138 | 78,013 |
| Other | 13,024 | 18,024 |
| **Total assets** | $ 15,810,206 | $ 14,868,198 |
| **Liabilities** (Note 7): | | |
| **Intragovernmental**: | | |
| Accounts payable | $ 813 | $ 3,186 |
| Other (Note 8) | | |
| Liability to the General Fund and Other Non-Entity Assets | 3,381,997 | 3,511,422 |
| Other | 3,214 | 2,620 |
| Total other | 3,385,211 | 3,514,042 |
| **Total intragovernmental** | 3,386,024 | 3,517,228 |
| Accounts payable | 697,338 | 551,499 |
| Federal employee and veteran benefits | 3,118 | 2,984 |
| Other (Note 8) | | |
| Deferred revenue | 2,767,977 | 1,205,713 |
| Prepaid contributions | 57,155 | 36,252 |
| Accrued liabilities for Universal Service | 489,926 | 524,358 |
| Other | 41,389 | 38,971 |
| Total other | 3,356,447 | 1,805,294 |
| **Total liabilities** | $ 7,442,927 | $ 5,877,005 |
| Commitments and contingencies (Note 9) | | |
| **Net position:** | | |
| Unexpended appropriations - Funds from dedicated collections (Note 10) | $ 982,952 | $ 600,000 |
| Unexpended appropriations - All other funds | 2,816 | 2,816 |
| Cumulative results of operations - Funds from dedicated collections (Note 10) | 7,158,613 | 8,077,259 |
| Cumulative results of operations - All other funds | 222,898 | 311,118 |
| Total net position - Funds from dedicated collections (Note 10) | 8,141,565 | 8,677,259 |
| Total net position - All other funds | 225,714 | 313,934 |
| **Total net position** | 8,367,279 | 8,991,193 |
| **Total liabilities and net position** | $ 15,810,206 | $ 14,868,198 |

The accompanying notes are an integral part of these statements.

**Federal Communications Commission**
**Consolidated Statements of Net Cost**
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

| | FY 2019 | FY 2018 |
|---|---|---|
| **Gross Program costs:** | | |
| **Closing the Digital Divide** | | |
| Total Gross Cost | $ 9,328,121 | $ 8,809,668 |
| **Promoting Innovation** | | |
| Total Gross Cost | 1,713,767 | 1,827,302 |
| **Protecting Consumers and Public Safety** | | |
| Total Gross Cost | 70,911 | 65,832 |
| **Reforming the FCC's Processes** | | |
| Total Gross Cost | 110,092 | 95,934 |
| **Total Program Costs** | $ 11,222,891 | $ 10,798,736 |
| **Less: earned revenues not attributed to programs** | (513,959) | (472,263) |
| **Net cost of operations** | $ 10,708,932 | $ 10,326,473 |

The accompanying notes are an integral part of these statements

**Federal Communications Commission**
**Consolidated Statements of Changes in Net Position**
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

| | FY 2019 | | | FY 2018 | | |
|---|---|---|---|---|---|---|
| | 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 Balance, as adjusted | $ 600,000 | $ 2,816 | $ 602,816 | $ - | $ 2,820 | $ 2,820 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations received | 400,000 | - | 400,000 | 600,000 | - | 600,000 |
| Appropriations used | (17,048) | - | (17,048) | - | (4) | (4) |
| Total Budgetary Financing Sources | 382,952 | - | 382,952 | 600,000 | (4) | 599,996 |
| **Total Unexpended Appropriations** | $ 982,952 | $ 2,816 | $ 985,768 | $ 600,000 | $ 2,816 | $ 602,816 |
| **Cumulative Results from Operations:** | | | | | | |
| Beginning Balance, as adjusted | $ 8,077,259 | $ 311,118 | $ 8,388,377 | $ 8,907,714 | $ 277,664 | $ 9,185,378 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations used | 17,048 | - | 17,048 | - | 4 | 4 |
| Nonexchange revenue | 9,829,226 | - | 9,829,226 | 9,543,325 | - | 9,543,325 |
| Transfers in/out without reimbursement | - | (134,959) | (134,959) | - | - | - |
| Other | - | - | - | (6) | - | (6) |
| **Other Financing Sources (Nonexchange):** | | | | | | |
| Transfers in/out without reimbursement | - | 134,959 | 134,959 | | | - |
| Imputed financing | - | 13,345 | 13,345 | - | 13,691 | 13,691 |
| Other | - | (157,553) | (157,553) | - | (27,542) | (27,542) |
| Total Financing Sources | 9,846,274 | (144,208) | 9,702,066 | 9,543,319 | (13,847) | 9,529,472 |
| Net Cost of Operations | 10,764,920 | (55,988) | 10,708,932 | 10,373,774 | (47,301) | 10,326,473 |
| Net Change | (918,646) | (88,220) | (1,006,866) | (830,455) | 33,454 | (797,001) |
| **Cumulative Results of Operations** | 7,158,613 | 222,898 | 7,381,511 | 8,077,259 | 311,118 | 8,388,377 |
| **Net Position** | $ 8,141,565 | $ 225,714 | $ 8,367,279 | $ 8,677,259 | $ 313,934 | $ 8,991,193 |

The accompanying notes are an integral part of these statements.

**Federal Communications Commission**
**Combined Statements of Budgetary Resources**
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

| | FY 2019 | FY 2018 |
|---|---|---|
| **Budgetary Resources:** | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | $ (4,467,012) | $ (4,869,982) |
| Appropriations (discretionary and mandatory) | 10,156,114 | 10,177,230 |
| Spending authority from offsetting collections (discretionary and mandatory) | 470,472 | 433,917 |
| Total budgetary resources | $ 6,159,574 | $ 5,741,165 |
| **Status of Budgetary Resources:** | | |
| New obligations and upward adjustments (total) | $ 16,199,733 | $ 11,059,379 |
| Unobligated balance, end of year: | | |
| Apportioned, unexpired accounts | 1,304,725 | 883,329 |
| Exempt from apportionment, unexpired accounts (Note 1 A) | (11,374,243) | (6,209,089) |
| Unapportioned, unexpired account | 29,117 | 7,091 |
| Unexpired unobligated balance, end of year | (10,040,401) | (5,318,669) |
| Expired unobligated balance, end of year | 242 | 455 |
| Unobligated balance, end of year (total) | (10,040,159) | (5,318,214) |
| Total status of budgetary resources | $ 6,159,574 | $ 5,741,165 |
| **Outlays, Net:** | | |
| Outlays, net (total) (discretionary and mandatory) | 10,582,524 | 10,047,317 |
| Distributed offsetting receipts (-) | (55,388) | (93,049) |
| Agency outlays, net (discretionary and mandatory) | $ 10,527,136 | $ 9,954,268 |

The accompanying notes are an integral part of these statements.

**Federal Communications Commission**
**Consolidated Statements of Custodial Activity**
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

| | FY 2019 | FY 2018 |
|---|---|---|
| **Total Custodial Revenue:** | | |
| Sources of Cash Collections: | | |
| Spectrum Auctions | $ 1,156,980 | $ 895,646 |
| Fines and Penalties | 7,746 | 712,281 |
| Total Cash Collections | 1,164,726 | 1,607,927 |
| | | |
| Accrual Adjustments (+/-) | | |
| Spectrum Auctions | 21,321 | - |
| Fines and Penalties | 424 | (13,874) |
| Total Accrual Adjustments | 21,745 | (13,874) |
| | | |
| **Total Custodial Revenue (Note 16)** | 1,186,471 | 1,594,053 |
| | | |
| **Disposition of Collections:** | | |
| Transferred to Others: | | |
| U.S. Treasury | (9,040) | (713,525) |
| Public Safety Trust Fund (NTIA) | (1,155,251) | (5,895,158) |
| | | |
| (Increase)/Decrease in Amounts Yet to be Transferred (+/-) | 129,425 | 5,125,780 |
| | | |
| Refunds and Other Payments | | |
| Auctions Salaries & Expenses (FCC) (Note 13) | (130,284) | (111,150) |
| Reverse Incentive Auction Winners | (21,321) | - |
| | | |
| **Total Disposition of Collections** | (1,186,471) | (1,594,053) |
| | | |
| **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, 2019 and 2018**
(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 programs (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 programs exemption from the application of the provisions of the Antideficiency Act until December 31, 2019. Accordingly, USF is 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. Information regarding disclosure entities is separately disclosed in Note 18.

## 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. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**D. 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.

**E. Cash and Other Monetary Assets**

Cash and Other Monetary Assets represent third party deposits and demand deposits which are held at a commercial bank and maintained by Rolka Loube, LLC (RL), who serves as the administrator for the TRS fund. Demand deposits bear the name of the entity, as well as the Commission or the TRS Fund. For more information, refer to Note 4.

**F. 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.

**G. 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.

**H. 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)**

**H. 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.

**I. 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.

**J. 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. The USF expenses are non-exchange expenses. Accrued Liabilities for USF mostly represent liabilities recorded for anticipated subsidies in the Lifeline program, and for certain support mechanisms within the High Cost program and TRS Fund. The obligations are recognized for subsidies related to certain USF support mechanisms and a TRS program that includes: Mobility Fund Phase I, Connect America Fund (CAF) Phase II, CAF Phase II reverse auction (CAF II Auction), Rural Broadband Experiment, Alternative Connected America Model (A-CAM), A-CAM II, Alaska Plan, and TRS's National Deaf-Blind Equipment Distribution Program. For these USF support mechanisms and TRS program, 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)**

**J. Accounts Payable and Accrued Liabilities (continued)**

Accrued Liabilities for the TV Broadcaster Relocation Fund (TVBRF) 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 broadcasters that were reassigned to new channels as a result of the Broadcast 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.

**K. Deferred Revenue**

The Commission collects proceeds from the sale of spectrum licenses 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.

**L. 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)**

**L. 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.

**M. 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.

**N. Exchange Revenue and Financing Sources**

<u>Regulatory Fee Offsetting Collections (Exchange)</u> – 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 $339,000 for FY 2019 and $322,035 for FY 2018. The Commission also collected $13,732 above the required regulatory level in FY 2019 and $9,233 above the required level in FY 2018. Starting in FY 2019, the Repack Airwaves Yielding Better Access for Users of Modern Services Act of 2018 (RAY BAUM'S Act), Division P of P.L. 115-141, requires the Commission to transfer all excess regulatory fee collections from prior and subsequent fiscal years to the General Fund of the Treasury for the sole purpose of deficit reduction. As of September 30, 2019, the Commission transferred excess regulatory fees collected totaling $134,959 to the Treasury.

<u>Competitive Bidding System Offsetting Collections (Exchange)</u> – 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 $130,284 for FY 2019 and $111,150 for FY 2018.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**N. 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 $1,178,301 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2019 and $895,646 in FY 2018. In FY 2019, the Commission transferred $1,155,251 of custodial revenue from the Broadcast Incentive Auction (BIA) to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and $1,295 from other spectrum auctions to the Treasury General Fund. In FY 2018, the Commission transferred $5,895,158 of custodial revenue from the BIA to the Public Safety Trust Fund, and $1,244 from other spectrum auctions to the Treasury General Fund.

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 $22,594 in FY 2019 and $27,542 in FY 2018. The RAY BAUM'S Act amended 47 U.S.C. § 158 with an effective date of October 1, 2018. Congress provided that application fees in effect before the effective date October 1, 2018 shall remain in effect until the Commission adjusts or amends such fees. The Commission's next amendment of the schedule of application fees will occur in calendar year 2020 and be based on 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 $856 in FY 2019 and $841 in FY 2018.

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 $9,797,201 and $9,476,789 were received in FY 2019 and FY 2018, 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 $339,000 for FY 2019 and $322,035 for FY 2018. Regulatory fee collections fully funded the no-year appropriations for FY 2019 and FY 2018.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**N. Exchange Revenue and Financing Sources (continued)**

Subsidy Estimates and Re-estimates (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 re-estimates. 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 2019 and FY 2018, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy re-estimate was completed in September 30, 2015; OMB waived the requirement to perform a subsidy re-estimate in FY 2019 and FY 2018.

**O. Reprogramming**

For the year ended September 30, 2019, the Commission did not request any reprogramming of prior year de-obligated funds. In FY 2018, $6,082 of prior year de-obligated funds 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.

**P. Net Position**

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains. Net position of funds from dedicated collections is separately disclosed in Note 10.

**Q. Broadcast Incentive Auction**

The Broadcast Incentive Auction (BIA) 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 TVBRF at $1,750,000. The Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs that were involuntarily reassigned to new channels as a result of the BIA.

Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, also known as the Reimbursement Expansion Act (REA), appropriated an additional $1,000,000 in new funding for the TVBRF, which increased its cap to $2,750,000 and also expanded the universe of entities eligible for reimbursement to cover the costs reasonably incurred by displaced low power TV and Television translator stations (LPTV/TV Translator) to relocate or modify their facilities, and by FM radio stations (FM stations) to reasonably minimize disruption of their services due to the TV repacking process.

## Note 1 – Summary of Significant Accounting Policies (continued)

### Q. Broadcast Incentive Auction (continued)

The additional $1,000,000 in new funding was appropriated over two fiscal years, $600,000 in FY 2018 and $400,000 in FY 2019. For FY 2018, the REA provides for funding of not more than $350 million to reimburse full power and Class A stations, not more than $150 million for LPTV/TV Translator, and not more than $50 million for FM stations to reimburse such stations for their costs. The REA also provides $50 million in FY 2018 funds for the Commission to use for consumer education relating to the reorganization of broadcast television. The REA does not expressly delineate the use of FY 2019 funds among the various categories of eligible recipients. In implementing the REA for the new universe of entities eligible for reimbursement, the Commission determined in the *REA Report & Order*, adopted March 15, 2019, that reimbursement of full power and Class A stations and MVPDs would be prioritized over reimbursement of LPTV/TV Translator and FM stations. As of September 30, 2019, the Commission made a total allocation of $1,820,184 for eligible full power and Class A broadcasters and MVPDs.

Accrued Liabilities are recorded in the TVBRF for invoices received but not processed and for costs incurred but not invoiced. As of September 30, 2019, an accrued accounts payable of $324,460 was recorded for the full power and Class A broadcasters and MVPDs.

On August 15, 2019, the Commission issued a Public Notice (PN), DA 19-774, *The Incentive Auction Task Force and Media Bureau Announce Reimbursement Form Availability and Filing Deadline and Procedures for Reimbursement of Lower Power TV, TV Translator, and FM Stations*, and the Commission is currently receiving and validating banking information from these new eligible entities in anticipation of commencing reimbursements to these new entities in FY 2020. The amount allocated in the first allocation will be equal to or less than the $200,000 appropriated for these new eligible entities. Obligations, expenses, and liabilities for approved reimbursements for LPTV/TV Translator and FM stations will occur upon the issuance of the allocation PN in FY 2020. As a result, in FY 2019, no accrued liability was recorded for the LPTV/TV Translator and FM stations.

### R. Connect America Fund Rate of Return Carriers

In FY 2017, rate-of-return carriers were given an option to elect model-based support that would provide a fixed amount of monthly support over a ten-year period. In return, carriers were required to meet specific build out requirements. As a result of the initial offer, 207 carriers accepted $5,283,553 in Alternative Connect America Cost Model (A-CAM) support and 21 carriers accepted $1,283,137 in Alaska Plan support. Pursuant to the FCC's December 2018 Rate-of Return Order, 186 rate-of-return carriers elected 242 revised offers to receive an additional $65,696 in annual support plus an additional two years of existing support through 2028. This resulted in new A-CAM obligations totaling $1,719,276 for FY 2019. In August 2019, the USF obligated $5,024,044 in A-CAM II funds subsequent to the release of FCC PN DA 19-808, authorizing 171 rate-of-return carriers that elected 184 offers of A-CAM II support over a 10-year period and 35 carriers to receive transition payments. As a result, the total obligation was reduced by the portion that was previously disbursed through Legacy funds during the six months from January 2019 through June 2019.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**S. Connect America Fund Phase II Auction**

After completing the Connect America Fund Phase II reverse auction (CAF II Auction), the FCC committed to award a potential total of $1,488,330 over a 10-year period. As of September 30, 2019, the FCC has directed USAC to obligate a total of $1,036,114 for carriers which have successfully complied with the requirements to be eligible to receive support to provide fixed broadband and voice services to over 700,000 locations in 45 states. There remains a balance of $452,216 to be obligated. In addition, the FCC committed to award a potential total of $55,421 to carriers that won the CAF II New York Auction.

**T. Comparison and Other**

Effective for FY 2019, the Federal Accounting Standards Advisory Broad (FASAB) issued SFFAS 53, *Budget and Accrual Reconciliation,* which requires a reconciliation of net outlays on a budgetary basis to its net cost of operations (reported on an accrual basis) during the reporting period. The Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) note disclosure. OMB Circular No. A-136, *Financial Reporting Requirements*, indicates that comparative presentation for the prior year is not required in the initial year of implementation. The analysis only displays information for the reporting period for the Year Ended September 30, 2019.

**Note 2 – Non-entity Assets**

The following summarizes Non-entity Assets as of September 30, 2019 and 2018:

| | FY 2019 | FY 2018 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury | $ 6,108,348 | $ 4,692,333 |
| Accounts Receivable | 351 | 351 |
| Total Intragovernmental | 6,108,699 | 4,692,684 |
| Accounts Receivable, Net | 15,601 | 9,551 |
| Total Non-entity Assets | 6,124,300 | 4,702,235 |
| Total Entity Assets | 9,685,906 | 10,165,963 |
| Total Assets | $ 15,810,206 | $ 14,868,198 |

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, 2019 and 2018:

| | FY 2019 | FY 2018 |
|---|---|---|
| Unobligated Balance | | |
| Available | $ (10,367,548) | $ (2,957,023) |
| Unavailable | 46,456 | 145,870 |
| Obligated Balance not yet Disbursed | 18,729,441 | 9,216,647 |
| Non-Budgetary FBWT | 6,108,348 | 4,692,333 |
| Total | $ 14,516,697 | $ 11,097,827 |

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, 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 TVBRF and USF. TVBRF is for relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV, TV Translator, FM stations who were involuntarily reassigned to new channels or incur reimbursable expenses as a result of the BIA, and for consumer education relating to the reorganization of broadcast television. Universal Service funds are for the four USF programs. These four USF programs 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. In May 2018, USAC began moving USF funds held in a private banking institution to an account within Treasury and as of September 30, 2019, USAC has completed the transfer.

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, 2019 and 2018:

| | FY 2019 | FY 2018 |
|---|---|---|
| Cash and Other Monetary Assets | $ 5,437 | $ 1,698 |

TRS contributions and related accrued interest being held for distribution are the sources of funds for these balances. Prior to FY 2019, upfront payments, unless refunded, were 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 required upfront payments of auction bidders to be deposited directly into the Treasury instead of an interest-bearing commercial bank account starting October 1, 2018. 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 2019, Cash and Other Monetary Assets included $5,437 in TRS contributions and related accrued interest being held for distribution.

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

## Note 5 – Investments

The following summarizes Investments as of September 30, 2019 and 2018:

| FY 2019 | Purchase Cost | Amortization Method | Amortized (Premium) Discount | Interest Receivable | Investments, Net | Other Adjustments | Market Value Disclosures |
|---|---|---|---|---|---|---|---|
| Intragovernmental Securities: | | | | | | | |
| Marketable Securities | | | | | | | |
| Treasury Bills | $ 307,224 | EI | $ 675 | $ - | $ 307,899 | $ - | $ 307,224 |
| Total | $ 307,224 | | $ 675 | $ - | $ 307,899 | $ - | $ 307,224 |
| FY 2018 | | | | | | | |
| 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 |

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 2019 and FY 2018.

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. As of September 30, 2019, USAC completed the transfer. All remaining investments as of September 30, 2019 are TRS funds.

**Note 5 – Investments (continued)**

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. With the completion of the transfer, the portfolio balances will decrease as the USF funds are moved to an account within Treasury instead of being used to purchase Federal securities. Treasury securities are an asset to the USF and a liability to the Treasury. Because the USF and the Treasury are both part of the 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, 2019 and 2018:

| | Intragovernmental | Public | Total |
|---|---|---|---|
| FY 2019 | | | |
| Gross Accounts Receivable | $ 449 | $ 1,737,588 | $ 1,738,037 |
| Allowance for Doubtful Accounts | - | (844,267) | (844,267) |
| Accounts Receivable, Net | $ 449 | $ 893,321 | $ 893,770 |
| 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 |

The following summarizes accounts receivable by type as of September 30, 2019 and 2018:

| | FY 2019 | | | FY 2018 | | |
|---|---|---|---|---|---|---|
| | Accounts Receivable | Allowance | Net | Accounts Receivable | Allowance | Net |
| USF | $ 1,229,749 | $ (361,278) | $ 868,471 | $ 1,102,606 | $ (333,352) | $ 769,254 |
| COMAD - Schools and Libraries | 198,982 | (190,459) | 8,523 | 162,998 | (158,434) | 4,564 |
| Regulatory Fees | 33,717 | (21,902) | 11,815 | 30,540 | (24,348) | 6,192 |
| Spectrum Auction | 8,680 | (8,680) | - | 8,707 | (8,707) | - |
| Civil Monetary Penalties | 255,212 | (254,368) | 844 | 267,769 | (266,885) | 884 |
| Other | 11,697 | (7,580) | 4,117 | 10,520 | (7,605) | 2,915 |
| Total | $ 1,738,037 | $ (844,267) | $ 893,770 | $ 1,583,140 | $ (799,331) | $ 783,809 |

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 96% in FY 2019 and 97% in FY 2018.

The USF accounts receivables includes $9,047 of gross receivables pertaining to criminal restitution for the TRS. The TRS estimated the net realizable value of criminal restitution receivable to be zero and recorded an allowance for the full amount of the receivable, $9,047.

**Note 7 – Liabilities Not Covered by Budgetary Resources**

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2019 and 2018:

| | FY 2019 | FY 2018 |
|---|---|---|
| Intragovernmental: | | |
| FECA Liability | $ 548 | $ 561 |
| Total Intragovernmental | 548 | 561 |
| Actuarial FECA Liability | 3,118 | 2,984 |
| Other: | | |
| Unfunded Leave | 18,083 | 17,467 |
| Engery Savings Performance Contract | 7,114 | 7,607 |
| Accrued Liabilities for Universal Service | 489,926 | 524,358 |
| Total liabilities not covered by budgetary resources | 518,789 | 552,977 |
| Total liabilities covered by budgetary resources | 811,270 | 626,984 |
| Total liabilities not requiring budgetary resources | 6,112,868 | 4,697,044 |
| Total Liabilities | $ 7,442,927 | $ 5,877,005 |

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.

## Note 8 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2019 and 2018:

| FY 2019 | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental | | | |
| Liability to the General Fund and Other Non-Entity Assets | $ - | $ 3,381,997 | $ 3,381,997 |
| Other | - | 3,214 | 3,214 |
| Total Intragovernmental | $ - | $ 3,385,211 | $ 3,385,211 |
| Deferred Revenue | $ 24,580 | $ 2,743,397 | $ 2,767,977 |
| Prepaid Contributions | - | 57,155 | 57,155 |
| Accrued Liabilities for Universal Service | - | 489,926 | 489,926 |
| Other | 6,666 | 34,723 | 41,389 |
| Total Other | $ 31,246 | $ 3,325,201 | $ 3,356,447 |

| 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 |

The Liability to the General Fund and Other Non-Entity Assets includes both cash collected and net accounts receivable being held for transfer to the Treasury General Fund or other Federal agencies. In FY 2019, the presentation for Custodial liability is revised and included into "The Liability to the General Fund and Other Non-Entity Assets." 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 Fund primarily represent anticipated future payments for the Lifeline program, and certain support mechanisms within the High Cost program and TRS Fund. 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 Universal Service funds from its programs which might result in future proceedings or actions. Similarly, the Commission, RL, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

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

As of September 30, 2019, 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

The telecommunications companies in the U.S. are obligated to make contributions to the USF and the TRS Fund. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions collected under the USF 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, the Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs who are involuntarily reassigned to new channels as a result of the BIA. In FY 2018, Congress appropriated additional funding and also expanded the universe of entities eligible for reimbursement. 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 reimbursement costs for the TVBRF as program expenses on the Statement of Net Cost.

The Commission had no activity related to Gifts and Bequests in FY 2019 and FY 2018.

The following pages summarize the significant assets, liabilities, and related costs incurred related to the USF and TVBRF as of September 30, 2019 and 2018.

**Note 10 – Funds from Dedicated Collections (Continued)**

| FY 2019 | TVBRF | USF | Total Funds from Dedicated Collections |
|---|---|---|---|
| **Balance Sheet as of September 30, 2019** | | | |
| Assets: | | | |
| Fund Balance with Treasury | $ 1,953,849 | $ 6,200,654 | $ 8,154,503 |
| Investments | - | 307,899 | 307,899 |
| Cash and other monetary assets | - | 5,437 | 5,437 |
| Accounts receivable, net | 297 | 877,363 | 877,660 |
| General property, plant, and equipment, net | - | 23,571 | 23,571 |
| Other assets | - | 13,024 | 13,024 |
| Total assets | $ 1,954,146 | $ 7,427,948 | $ 9,382,094 |
| Liabilities: | | | |
| Accounts payable | $ 324,459 | $ 358,815 | $ 683,274 |
| Deferred revenue | - | 10,174 | 10,174 |
| Prepaid contributions | - | 57,155 | 57,155 |
| Accrued liabilities | - | 489,926 | 489,926 |
| Total liabilities | $ 324,459 | $ 916,070 | $ 1,240,529 |
| Unexpended Appropriations | $ 982,952 | $ - | $ 982,952 |
| Cumulative results of operations | 646,735 | 6,511,878 | 7,158,613 |
| Total liabilities and net position | $ 1,954,146 | $ 7,427,948 | $ 9,382,094 |
| **Statement of Net Cost for the Period Ended September 30, 2019** | | | |
| Net cost of operations | $ 681,827 | $ 10,083,093 | $ 10,764,920 |
| **Statement of Changes in Net Position for the Period Ended September 30, 2019** | | | |
| Unexpended Appropriations | | | |
| Total Unexpended Appropriations | $ 982,952 | $ - | $ 982,952 |
| Cumulative results from operations | | | |
| Beginning Balances | 1,311,514 | 6,765,745 | 8,077,259 |
| Appropriations used | 17,048 | | 17,048 |
| Non-exchange revenue | - | 9,829,226 | 9,829,226 |
| Net cost of operations | 681,827 | 10,083,093 | 10,764,920 |
| Change in net position | (664,779) | (253,867) | (918,646) |
| Cumulative results of operations | 646,735 | 6,511,878 | 7,158,613 |
| Net position | $ 1,629,687 | $ 6,511,878 | $ 8,141,565 |

**Note 10 – Funds from Dedicated Collections (Continued)**

| FY 2018 | TVBRF | USF | Total Funds from Dedicated Collections |
|---|---|---|---|
| **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 11 – Inter-Entity Costs**

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Commission are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

**Note 12 – Undelivered Orders at the End of the Period**

The amount of budgetary resources obligated for undelivered orders totaled $18,045,870 as of September 30, 2019 and $13,936,671 as of September 30, 2018. The following summarizes Undelivered Orders as of September 30, 2019 and 2018:

| FY 2019 | Federal | | Non-Federal | | Total | |
|---|---|---|---|---|---|---|
| Undelivered Orders-Unpaid | $ | 3,333 | $ | 18,028,272 | $ | 18,031,605 |
| Undelivered Orders-Paid | | 1,241 | | 13,024 | | 14,265 |
| Total | $ | 4,574 | $ | 18,041,296 | $ | 18,045,870 |

| 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.

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.

## Note 13 – Permanent Indefinite Appropriations (Continued)

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 2019 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $130,284.

## Note 14 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $339,000 in FY 2019 and $322,035 in FY 2018 are precluded from obligation. In addition, the RAY BAUM'S Act requires the Commission to transfer all excess regulatory fees collected from prior and subsequent fiscal years to the Treasury General Fund for the sole purpose of deficit reduction.

## 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 2018 and the amounts presented in the FY 2020 Budget of the United States Government. The FY 2021 Budget of the United States Government, which will include actual numbers for FY 2019, 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 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 N.

## Note 17 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

## Note 17 – Reconciliation of Net cost to Net Outlays (Continued)

OMB Circular No. A-136, *Financial Reporting Requirements* indicates that comparative presentation for the prior year is not required in the initial year of implementation. The analysis below illustrates this reconciliation by listing the Commission's key differences between net cost and net outlays for the reporting period as of September 30, 2019. For more information, refer to Note 1 T.

| | Intragovernmental | With the Public | Total |
|---|---|---|---|
| **Net Cost of Operations** | $ 113,310 | $ 10,595,622 | $ 10,708,932 |
| **Components of Net Operating Cost Not Part of the Budgetary Outlays:** | | | |
| Property, plant, and equipment depreciation | - | (23,200) | (23,200) |
| **Increase/(Decrease) in Assets not affecting Budget Outlays:** | | | |
| Accounts receivable | 56 | (3,640) | (3,584) |
| Other assets | (624) | (5,000) | (5,624) |
| Investments | - | (5,214) | (5,214) |
| **(Increase)/Decrease in Liabilities not affecting Budget Outlays:** | | | |
| Accounts payable | 2,379 | (167,160) | (164,781) |
| Salaries and benefits | (613) | (1,602) | (2,215) |
| Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA) | 12 | 36,033 | 36,045 |
| **Other financing sources:** | | | |
| Federal employee retirement benefit costs paid by OPM & imputed to agency | (13,345) | - | (13,345) |
| **Total Components of Net Operating Cost Not Part of the Budget Outlays** | $ (12,135) | $ (169,783) | $ (181,918) |
| **Components of the Budget Outlays That Are Not Part of Net Operating Cost:** | | | |
| Acquisition of capital assets | - | 17,324 | 17,324 |
| Other | (1) | (17,201) | (17,202) |
| **Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost** | $ (1) | $ 123 | $ 122 |
| **NET OUTLAYS (Calculated Total)** | $ 101,174 | $ 10,425,962 | $ 10,527,136 |
| **Related Amounts on the Statement of Budgetary Resources** | | | |
| Outlays, net (total) (discretionary and mandatory) | | | 10,582,524 |
| Distributed offsetting receipts (-) | | | (55,388) |
| Agency outlays, net (discretionary and mandatory) | | | $ 10,527,136 |

**Note 18 – Disclosure Entities**

Universal Service Administrative Company (USAC) – 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, Inc. (NECA), and in that same year, the FCC appointed USAC as the permanent administrator, under the Commission's direction, of the four USF programs. The four USF programs 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 four programs, including billing, collection, and disbursement. In the third quarter of FY 2018, under the Commission's authorization, USAC began using an account within Treasury for collections and disbursements.

National Exchange Carrier Association, Inc. (NECA) – 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 including 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 with USAC's financial statements 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.

North American Numbering Plan Administrator (NANPA) Program – The NANPA administers a telephone numbering plan, the North American Numbering Plan, that encompasses 20 countries primarily in Northern America. For the United States only, the program also includes the functions of the Pooling Administrator, which administers pooling of geographic phone numbers in the United States, and the Routing Number Administrator, which administers use of certain special purpose numbers. The NANPA program is funded by fees charged to member countries for its services provided to them. In the United States, the telecommunications service providers directly pay for the NANPA services provided to the United States, per FCC rules. While the FCC requires these costs to be recovered from service providers, the receipts go directly to the Billing and Collection Agent for disbursement to the NANPA and is never included in the Federal budget. The Commission contracts for and exercises oversight over the NANPA, currently Somos, Inc., as well as the Billing and Collection Agent, currently Welch, LLP.

Local Number Portability Administrator (LNPA) Program – The LNPA program facilitates portability of U.S. geographic telephone numbers between telephony service providers. The LNPA program provides and operates the Number Portability Administration Center (NPAC) system that provides local number portability for the United States, performing the service of porting telephone numbers between service providers. The LNPA program is funded by fees the LNPA charges telecommunications service providers for its service, pursuant to FCC rules.

The FCC exercises oversight of the LNPA procurement process and regulates local number portability. The FCC has authorized the telephony service provider industry consortium, North American Portability Management, LLC (NAPM), to procure the LNPA and oversee the LNPA's performance and operation of the LNPA program. Currently iconectiv, LLC is the LNPA under a contract with NAPM; iconectiv, LLC is a subsidiary, subject to a voting trust, of Telefonaktiebolaget LM Ericsson (d/b/a Ericsson), a publicly-traded Swedish multinational networking and telecommunications company.

**Note 18 – Disclosure Entities (continued)**

North American Portability Management, LLC (NAPM) – NAPM is a Delaware limited liability company formed for the purpose of engaging in business activities related to the development and implementation of policies for number portability in seven NPAC regions of the United States. The FCC formed NAPM to procure and manage the LNPA program (FCC 97-289, 12 FCC Rcd 12281).

NAPM is a telephony service provider industry consortium, whose membership is currently comprised of companies from a cross section of the industry representing wireless, wireline, cable, and Voice Over Internet Protocol (VoIP) providers. The purpose of NAPM is to negotiate and manage contracts for the LNPA program, including immediate oversight and management of the LNPA in accordance with the rules and policies of the FCC. NAPM manages the contracts for each of the seven regions with a third-party vendor chosen by NAPM and approved by the FCC to serve as the LNPA. NAPM is funded by fees charged to its members.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity,* the Commission reported USAC and NECA as disclosure entities beginning in FY 2018 and added NANPA program, LNPA program, and NAPM as disclosure entities beginning in FY 2019. None of these disclosure entities substantially meet the requirements to be consolidated entities. As of September 30, 2019, 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, NECA, NANPA program, LNPA program, or NAPM. USAC and NECA are all not-for-profit corporations, the NAPM is a Delaware limited liability company, and NANPA and LNPA are programs pursuant to FCC rules. USAC's annual reports are available at https://www.usac.org, while NECA's annual reports are available at https://www.neca.org. NANPA program's annual reports are submitted directly to FCC. LNPA program's annual reports are submitted to NAPM, which provides them to the FCC. NAPM does not produce and issue annual reports, however it provides financial statements to the FCC.

## Note 18 – Disclosure Entities (continued)

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, 2019 and September 30, 2018:

**Summary of Balances Associated with Disclosure Entities**

| FY 2019 | Universal Service Adminstrative Company (USAC) | National Exchange Carrier Association, Inc. (NECA) | Total Balances Associated with Disclosure Entities |
|---|---|---|---|
| **Balance Sheet** | | | |
| Other assets (Note 1 I) | $ 13,024 | $ - | $ 13,024 |
| Accounts payables[1] | 5,632 | 27 | 5,659 |
| **Statement of Net Cost** | | | |
| Net cost of operations[2] | $ 174,750 | $ 510 | $ 175,260 |
| **Statement of Changes in Net Position** | | | |
| Net cost of operations[2] | $ 174,750 | $ 510 | $ 175,260 |

| 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 I) | $ 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 |

[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 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format**

To prepare the Financial Report of the U.S. Government (FR), the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Commission's financial statements and the Commission's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR will be found here: https://www.fiscal.treasury.gov/reports-statements/ as soon as it is released. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

**Reclassification of Balance Sheet to Government-wide Balance Sheet Format**
**As of September 30, 2019**

| AFR Line | 2019 Balance Sheet | 2019 Reclassified Balance Sheet | Reclassified Line |
|---|---|---|---|
| **ASSETS** | | | **ASSETS** |
| **Intra-Governmental Assets** | | | **Intra-Governmental Assets** |
| FBWT | $ 14,516,697 | $ 14,516,697 | FBWT |
| Investments, Net | 307,899 | 307,899 | Federal Investments |
| *Total Investments, Net* | *307,899* | *307,899* | *Total Reclassified Investments, Net* |
| Accounts Receivable | 449 | 449 | Accounts Receivable |
| *Total Accounts Receivable* | *449* | *449* | *Total Reclassified A/R* |
| Other | 1,241 | 1,241 | Advances to Others and Prepayments |
| *Total Other* | *1,241* | *1,241* | *Total Reclassified Other* |
| **Total Intra-Governmental Assets** | **$ 14,826,286** | **$ 14,826,286** | **Total Intra-Governmental Assets** |
| Cash and Other Monetary Assets | 5,437 | 5,437 | Cash and Other Monetary Assets |
| Accounts Receivable, Net | 893,321 | 893,321 | Accounts and Taxes Receivable, Net |
| General PP&E, Net | 72,138 | 72,138 | PP&E, Net |
| Other | 13,024 | 13,024 | Other Assets |
| | | | |
| **Total Assets** | **$ 15,810,206** | **$ 15,810,206** | **Total Assets** |

**Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)**

**Reclassification of Balance Sheet to Government-wide Balance Sheet Format**
**As of September 30, 2019**

| AFR Line | 2019 Balance Sheet | 2019 Reclassified Balance Sheet | Reclassified Line |
|---|---|---|---|
| **LIABILITIES** | | | **LIABILITIES** |
| **Intra-Governmental Liabilities** | | | **Intra-Governmental Liabilities** |
| Accounts Payable | $ 813 | $ 813 | Accounts Payable |
| *Total Accounts Payable* | *813* | *813* | *Total Reclassified Accounts Payable* |
| Other – Liability to the General Fund of the U.S. Government and Other Non-Entity Assets | 3,381,997 | 3,381,997 | Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets |
| Other – Miscellaneous Liabilities | 3,214 | 2,215 | Benefit Program Contributions Payable |
| | | 999 | Other liabilities |
| *Total Other - Miscellaneous Liabilities* | *3,385,211* | *3,385,211* | *Total Reclassified Other - Miscellaneous Liabilities* |
| **Total Intra-Governmental Liabilities** | **$ 3,386,024** | **$ 3,386,024** | **Total Intra-Governmental Liabilities** |
| Accounts Payable | 697,338 | 697,338 | Accounts Payable |
| Federal Employee and Veteran Benefits[3] | 3,118 | 3,122 | Federal Employee and Veteran Benefits Payable |
| Advances and Deferred Revenue | 2,767,977 | | Other Liabilities |
| Prepaid Contributions | 57,155 | | Other Liabilities |
| Accrued Liabilities for Universal Service | 489,926 | | Other Liabilities |
| Other | 41,389 | 3,356,443 | Other Liabilities |
| *Total Miscellaneous Liabilities[3]* | ***3,356,447*** | ***3,356,443*** | *Total Reclassified Miscellaneous Liabilities* |
| **Total Liabilities** | **$ 7,442,927** | **$ 7,442,927** | **Total Liabilities** |
| | | | |
| **NET POSITION** | | | |
| Unexpended Appropriations – Funds from Dedicated Collections | $ 982,952 | $ 982,952 | Net Position – Funds from Dedicated Collections (Unexpended Appropriations) |
| Unexpended Appropriations – All Other Funds | 2,816 | 2,816 | Net Position – Funds Other than those from Dedicated Collections (Unexpended Appropriations) |
| Cumulative Results of Operations – Funds from Dedicated Collections | 7,158,613 | 7,158,613 | Net Position – Funds from Dedicated Collections (Cumulative Results of Operations) |
| Cumulative Results of Operations – All Other Funds | 222,898 | 222,898 | Net Position – Funds Other than those from Dedicated Collections (Cumulative Results of Operations) |
| **Total Net Position** | **$ 8,367,279** | **$ 8,367,279** | **Total Net Position** |
| **Total Liabilities & Net Position** | **$ 15,810,206** | **$ 15,810,206** | **Total Liabilities & Net Position** |

[3] These line items do not match the line items in the reclassified financial statements due to a difference in reporting the "Federal Employee and Veteran Benefits" at the agency level and Government-wide level. At the agency level, $3,122 reported on the Reclassified Line for "Federal Employee and Veteran Benefits Payable" is split between the AFR Line “Federal Employee and Veteran Benefits" and "Other."

**Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)**

**Reclassification of Statement of Net Cost to Government-wide Statement of Net Cost Format**
**For the Year Ended September 30, 2019**

| AFR Line | 2019 SNC | 2019 Reclassified SNC | Reclassified Line |
|---|---|---|---|
| Gross Costs | $ 11,222,891 | $ 11,108,718 | Non-Federal Gross Cost |
| | | | ***Intragovernmental Costs*** |
| | | 39,713 | Benefit Program Costs |
| | | 13,345 | Imputed Costs |
| | | 48,095 | Buy/Sell Costs |
| | | 13,020 | Other Expenses (w/o Reciprocals) |
| | | ***114,173*** | ***Total Intragovernmental Costs*** |
| *Total Gross Costs* | ***$ 11,222,891*** | ***$ 11,222,891*** | *Total Reclassified Gross Costs* |
| **Earned Revenue**[4] | (513,959) | (382,811) | Non-Federal Earned Revenue |
| | | | ***Intragovernmental Revenue*** |
| | | (863) | Buy/Sell Revenue |
| | | (1) | Borrowing and Other Interest Revenue |
| | | ***(864)*** | ***Total Intragovernmental Earned Revenue*** |
| ***Total Earned Revenue*** | ***(513,959)*** | ***(383,675)*** | ***Total Reclassified Earned Revenue*** |
| **Net Cost of Operations** | **$ 10,708,932** | **$ 10,839,216** | **Net Cost of Operations** |
| **Exchange Statement of Custodial Activity** | | | |
| | | | |
| *Refunds and Other Payments Auctions Salaries & Expenses* | | **(130,284)** | Buy/Sell Revenue (Intradepartmental Eliminations for Auctions Salaries & Expenses)[4] |
| **Net Cost of Operations** | **$ 10,708,932** | **$ 10,708,932** | **Net Cost of Operations** |

[4] 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 $130,284 for FY 2019. At the agency level these amounts are recognized on the Consolidated Statement of Custodial Activity in the "Refunds and Other Payments" sections on the line "Auctions Salaries & Expenses (FCC)" and the "Less: earned revenues not attributed to programs" on the Consolidated Statement of Net Cost. At the Government-wide level these amounts are eliminated on the Reclassified Statement of Net Cost.

## Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

**Reclassification of Statement of Changes in Net Position to Government-wide Statement of Changes in Net Position**

**For the Year Ended September 30, 2019**

| AFR Line | 2019 SCNP | 2019 Reclassified SCNP | Reclassified Line |
|---|---|---|---|
| **UNEXPENDED APPRORPATIONS** | | | |
| Unexpended Appropriations, Beginning Balance | $ 602,816 | $ 8,991,194 | Net Position, Beginning of Period |
| Appropriations Received, General Funds | 400,000 | 400,000 | Appropriations Received as Adjusted |
| Appropriations Used | (17,048) | (17,048) | Appropriations Used (Federal) |
| **Total Unexpended Appropriations** | **$ 985,768** | | |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | |
| Cumulative Results, Beginning Balance | 8,388,377 | | |
| Appropriations Used | 17,048 | 17,048 | Appropriations Expended |
| Non-Exchange Revenue | 9,829,226 | | ***Non-Federal Non-Exchange Revenues*** |
| SCA: Sources of Cash Collecitons: Fines and | 7,746 | 9,817,036 | Other Taxes and Receipts |
| SCA: Sources of Cash Collecitons: Spectrum | 1,156,980 | 1,156,980 | Miscellaneous Earned Revenues |
| SCA: Accrual Adjustments: Fines and Penalties | 424 | | |
| | | ***10,974,016*** | ***Total Non-Federal Non-Exchange Revenues*** |
| | | | ***Intragovernmental Non-Exchange Revenue*** |
| | | 20,360 | Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange |
| SCA: Disposition of Collections: Transferred to Others:<br>Public Safety Trust Fund (NTIA) | (1,155,251) | (1,155,251) | Collections Transferred to a TAS Other Than the General Fund of the U.S. Government |
| | | ***(1,134,891)*** | ***Total Intragovernmental Non-Exchange Revenue*** |
| *Total Non-Exchange Revenues* | *9,839,125* | *9,839,125* | *Total Reclassified Non-Exchange Revenue* |
| Imputed Financing | 13,345 | 13,345 | Imputed Financing Sources (Federal) |
| Other | (157,553) | (423) | Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund |
| SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be | 129,425 | (36,745) | Non-Entity Custodial Collections Transferred to the General Fund |
| SCA:Dispostion of Collections: Transferred to Others: | (9,040) | | |
| *Total Other* | *(23,823)* | *(23,823)* | *Total Reclassified Other* |
| SCA: Disposition of Collections:<br>Refunds and Other Payments Auctions Salaries & Expenses (FCC) | (130,284) | | |
| **Total Financing Sources** | 9,702,066 | | |
| **Net Cost of Operations** | 10,708,932 | 10,839,217 | **Net Cost of Operations**[4] |
| **Ending Balance – Cumulative Results of Operations** | 7,381,511 | | |
| **Total Net Position** | 8,367,279 | 8,367,279 | **Net Position - Ending Balance** |

**Note 20 – Subsequent Event**

The Incentive Auction of Upper Microwave Flexible Use Service Licenses in the 37 GHz, 39 GHz and 47 GHz Bands (Auction 103) is scheduled to begin in the first quarter of FY 2020. Upfront payments of Auction 103 bidders were deposited into the Treasury in October 2019.

On October 2, 2019, the Commission issued PN DA 19-994, granting 2,696 licenses in Auction 101, Auction of 28 GHz Upper Microwave Flexible Use Service Licenses, for $689,797 with 269 licenses not yet granted for $10,517.

In FY 2020, the Commission expects to release an allocation PN from the TVBRF for eligible LPTV, TV Translator, and FM stations and begin incurring obligations, expense, and liabilities related to the approved reimbursements for those entities.

In October 2019, the USF obligated an additional $61 million in CAF II Auction funds pursuant to FCC PN (DA 19-1030). The remaining balances of CAF II Auction funds are anticipated to be obligated in FY 2020.

# Required Supplementary Information

## Required Supplementary Information – Schedule of Budgetary Resources by Major Account

For the Years Ended September 30, 2019 and 2018
(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, TVBRF, and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auctions program. The TVBRF represents reimbursements of relocation costs for eligible entities and for consumer education relating to the reorganization of broadcast television. USF includes the USF and TRS Fund. 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, 2019 and 2018 Combined Statement of Budgetary Resources.

**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT**

| **FY 2019** | S&E | Auctions | TVBRF | USF | Other | Total |
|---|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | | |
| Unobligated balance from prior year budget authority, net | $ 87,470 | $ 40,028 | $ 642,269 | $ (5,239,617) | $ 2,838 | $ (4,467,012) |
| Appropriations (discretionary and mandatory) | - | - | 400,000 | 9,756,114 | - | 10,156,114 |
| Spending authority from offsetting collections (discretionary and mandatory) | 340,183 | 130,284 | - | - | 5 | 470,472 |
| Total budgetary resources | $ 427,653 | $ 170,312 | $ 1,042,269 | $ 4,516,497 | $ 2,843 | $ 6,159,574 |
| **Status of Budgetary Resources:** | | | | | | |
| New obligations and upward adjustments (total) | $ 349,747 | $ 131,809 | $ 125,463 | $ 15,592,710 | $ 4 | $ 16,199,733 |
| Unobligated balance, end of year: | | | | | | |
| Apportioned, unexpired accounts | 73,846 | 32,348 | 897,685 | 298,030 | 2,816 | 1,304,725 |
| Exempt from apportionment, unexpired accounts | - | - | - | (11,374,243) | - | (11,374,243) |
| Unapportioned, unexpired accounts | 3,818 | 6,155 | 19,121 | - | 23 | 29,117 |
| Unexpired unobligated balance, end of year | 77,664 | 38,503 | 916,806 | (11,076,213) | 2,839 | (10,040,401) |
| Expired unobligated balance, end of year | 242 | - | - | - | - | 242 |
| Unobligated balance, end of year (total) | 77,906 | 38,503 | 916,806 | (11,076,213) | 2,839 | (10,040,159) |
| Total status of budgetary resources | $ 427,653 | $ 170,312 | $ 1,042,269 | $ 4,516,497 | $ 2,843 | $ 6,159,574 |
| **Outlays, Net:** | | | | | | |
| Outlays, net (discretionary and mandatory) | $ (26,887) | $ (19,602) | $ 580,229 | $ 10,048,790 | $ (5) | $ 10,582,525 |
| Distributed offsetting receipts (-) | (23,929) | - | - | (31,459) | - | (55,388) |
| Agency outlays, net (discretionary and mandatory) | $ (50,816) | $ (19,602) | $ 580,229 | $ 10,017,331 | $ (5) | $ 10,527,137 |

**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT**

| **FY 2018** | S&E | Auctions | TVBRF | 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 |
| **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 |

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