

Federal Communications Commission

**Fiscal Year 2017 Agency Financial  
Report**

**Report Number**

**17-AUD-07-03**

**November 15, 2017**



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OFFICE OF INSPECTOR GENERAL

MEMORANDUM

**DATE:** November 15, 2017  
**TO:** Chairman  
**FROM:** Inspector General  
**SUBJECT:** Audit of the Federal Communications Commission's Fiscal Year 2017 Financial Statements (Project No. 17-AUD-07-03)

As required by the Accountability of Tax Dollars Act of 2002, (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Co, P.C. (Kearney) to audit the Federal Communications Commission's (FCC) fiscal year 2017 financial statements. The audit was conducted in accordance with generally accepted government auditing standards.

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 FCC's financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- Two significant deficiencies were noted this year, both of which were repeated from prior years. The first significant deficiency was related to information technology controls at FCC and the Universal Service Administrative Company and the second was related to Universal Service Fund Budgetary Accounting.

Additionally, one prior year significant deficiency, relating to FCC's Accounting for Non-Exchange Revenue, was closed this year.

The OIG monitored Kearney's performance throughout the audit and reviewed their report and related documentation. Kearney is wholly responsible for the attached audit report dated November 15, 2017 and the conclusions expressed therein. Our review, while still ongoing, did not disclose any instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General appreciates the cooperation and courtesies you extended to our staff and the staff of Kearney & Co. P.C. during the audit. If you have any questions, please

contact Robert McGriff, Assistant Inspector General for Audit, at (202) 418-0483 or robert.mcgriff@fcc.gov; or Sophie Jones, Deputy Assistant Inspector General for Audit at (202) 418-1655 or sophila.jones@fcc.gov.

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

## 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, 2017 and 2016, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Consolidated Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCC as of September 30, 2017 and 2016, and its net costs, changes in net position, custodial activities, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued reports, dated November 15, 2017, on our consideration of FCC's internal control over financial reporting and on our tests of FCC's compliance with provisions of applicable laws and regulations for the year ended September 30, 2017. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03, and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 15, 2017

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2017, and have issued our report thereon dated November 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered FCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in FCC's internal control to be significant deficiencies.

## Significant Deficiencies

### I. Universal Service Fund Budgetary Accounting

Through the Universal Service Fund's Schools and Libraries (S&L) program, the Federal Communications Commission (FCC) helps schools and libraries obtain affordable broadband internet. This includes help paying for recurring costs, such as monthly internet bills, and non-recurring costs, such as the purchase and installation of equipment. The Universal Service Administrative Company (USAC), with the assistance of a third party service provider, administers the Schools and Libraries program on behalf of FCC.

Eligible schools, school districts, and libraries apply to participate in the Schools and Libraries program. Once accepted into the program, USAC issues a Funding Commitment Decision Letter (FCDL). The FCDL communicates acceptance into the program and relevant conditions, including the type of services USAC will reimburse, the maximum amount eligible for reimbursement, and the date by which the invoices must be submitted (referred to as the "invoicing deadline" hereafter). When USAC issues an FCDL, accounting personnel records an obligation in USAC's accounting system. As invoices are paid, USAC's accounting personnel reduce the obligated balance. FCDLs generally have an invoicing deadline 120 days after issuance. However, non-recurring costs are granted an automatic one year extension if the FCDL is issued on or subsequent to March 1<sup>st</sup>. Thirty days after the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line on its consolidated Statement of Budgetary Resources (SBR).

Beginning in FY 2016, USAC began transitioning from its Simplified Tracking and Review System (STARs) to E-Rate Productivity Center (EPC), an account and application management system for the Schools and Libraries E-rate Program. E-rate Program participants use EPC to submit documentation, receive notifications, and to contact customer service. USAC and its third party service provider also use EPC to support their daily operations, including tracking invoice deadlines.

We selected a sample of 87<sup>1</sup> FCDLs from a total population of 94,239.<sup>2</sup> For each sampled FCDL, Kearney obtained documentation to support the invoicing deadline in EPC. Seven of the S&L samples selected had FCDLs with non-recurring services issued on or after March 1<sup>st</sup>. The invoicing deadline for none of these seven FCDLs reflected the automatic one year extension. USAC confirmed this was a systemic issue with EPC. After initially communicating this issue to USAC on September 8<sup>th</sup> and subsequent to the completion of our sample test work, USAC provided additional documentation on November 3<sup>rd</sup> demonstrating it had self-identified this issue in April 2017. USAC stated it had implemented an interim solution and had finalized its remediation plan by October 26, 2017.

In FY 2016, USAC's S&L program office implemented EPC. USAC did not effectively test the functionality of S&L business rules within EPC to ensure those rules were operating as intended.

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<sup>1</sup> Of the 87 FCDLs reviewed, 77 were related to the S&L program. The remaining 10 FCDLs were related to other USAC initiatives.

<sup>2</sup> Of the 94,239 FCDLs subject to our review, 84,717 were related to the S&L program. The remaining 9,522 FCDLs were related to other USAC programs.

The program office did not have adequate procedures to ensure invoicing deadlines were accurate. Accounting personnel did not have the ability to effectively review the accuracy of invoicing procedures.

Inaccurate invoicing deadlines increase the risk of premature deobligations. Because invoicing deadlines for seven of our samples were January 2018 instead of January 2019, USAC was at risk of improperly de-obligating \$29M in FY 2018. This improper deobligation would have resulted in an overstatement of FCC's *Recoveries of Prior Year Unpaid Obligations* line on the FY 2018 SBR. No obligations were impacted for FY 2017; however, as this issue is systemic in nature, additional transactions could be at risk of misstatement in future years.

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

1. Develop and implement test scenarios for USAC business rules to ensure EPC functionality is operating effectively. *[New]*
2. Ensure policies and procedures adequately address recording deobligations in accordance with program rules and accounting standards. *[Repeat]*
3. Ensure quality review procedures adequately address recording deobligations in the appropriate fiscal year. *[Repeat]*

## **II. Information Technology**

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

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

- FCC General IT Support System – We noted that FCC had improved its overall information security program since the FY 2016 FISMA evaluation, most notably in implementing portions of its risk management program, which it designed in FY 2016 to improve the security over FCC information, as well as FCC's oversight of third party systems. FCC also

developed reporting metrics for areas of its information security program, implemented regular vulnerability scanning, and continued to shift processing to the cloud and replace legacy systems and infrastructure. Despite the progress made during FY 2017, we identified control weaknesses in multiple IT control areas, including Risk Management, Identity and Access Management, and Information Security Continuous Monitoring. These control weaknesses impacted FCC's general IT support system. FCC management stated that these efforts continue to require significant resources, delaying the full implementation of information security policies and procedures. While these changes provide the FCC with an opportunity to improve its information security posture, management must prioritize and devote sufficient resources to implement its information security policies and procedures and resolve weaknesses in the FCC information security program and systems.

- FCC Financial Management System – FCC's financial management and accounting system, Genesis, is provided by an external service provider. The external service provider is responsible for maintaining a number of IT controls. However, FCC's general IT support system is the gateway for all of the FCC's systems, including Genesis. Therefore, IT deficiencies noted in the general support system as described above may impact Genesis as well. Further, we noted additional control weaknesses impacting Genesis beyond those inherited from FCC's general IT support system. Specifically, we noted that the FY 2017 contingency planning test of Genesis failed to meet the required restoration time frame.
- Other FCC Systems – The data in other FCC systems indirectly impacts the information reported in the financial system. We performed risk-based procedures on two of these systems and found that the FCC did not have a valid authorization to operate for one of the systems. Without an authorization to operate, the FCC is operating a system for which the identified risks have not been evaluated and accepted by management.

In general, we found that FCC had not implemented effective policies, procedures and processes over its general support system, FCCNet, and its financial management system, Genesis. We consider the aggregation of these control weaknesses to be a significant deficiency.

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

**Recommendations:** Our full FY 2017 FISMA evaluation report includes 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, Information Security Continuous Monitoring, Incident Response, and Contingency Planning. Twenty one of the recommendations relate to FCC and three of the recommendations related to USAC. Of the 21 FCC recommendations, 14 related to FISCAM control areas. All three of the USAC recommendations related to FISCAM control areas.

## Status of Prior Year Findings

In the Independent Auditor’s Report on Internal Control Over Financial Reporting included in the audit report on the FCC’s FY 2016 financial statements,<sup>3</sup> we noted three issues that were related to internal control over financial reporting. The status of the FY 2016 internal control findings is summarized in Table 1.

**Table 1. Status of Prior Year Findings**

Control Deficiency	FY 2016 Status	FY 2017 Status
Accounting for Non-Exchange Revenue	Significant Deficiency	Resolved
Universal Services Fund Budgetary Accounting	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

### FCC’s Responses to Findings

The FCC’s response to the significant deficiencies identified in our audit is included in the memorandum from management titled “Management’s Responses to Independent Auditor’s Reports on Internal Control over Financial Reporting and Compliance with Laws and Regulations for Fiscal Year 2017” included in the FCC’s Agency Financial Report. The FCC’s response was not subjected to auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of FCC’s internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03 in considering the entity’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia  
November 15, 2017

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<sup>3</sup> *Independent Auditor’s Report on Internal Control Over Financial Reporting* published in the Federal Communications Commission Fiscal Year 2016 Agency Financial Report

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

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

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2017, and have issued our report thereon dated November 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

**Compliance and Other Matters**

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03. Although our audit procedures did not identify any instances of non-compliance in FY 2017, FCC management communicated a potential instance of non-compliance with the *Antideficiency Act*<sup>4</sup> that was identified in 2011. This potential non-compliance was still being researched by FCC as of September 30, 2017.

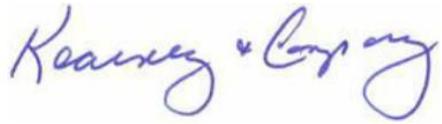
**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of FCC's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in

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<sup>4</sup> The Antideficiency Act prohibits the FCC from obligating or expending federal funds in advance or in excess of an appropriation, and from accepting voluntary services.

the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03, in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 15, 2017



*Office of the Managing Director*

**DATE:** November 15, 2017

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

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

**SUBJECT:** Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Applicable Provisions of Laws and Regulations for Fiscal Year 2017

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

We are pleased that, for the twelfth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2017 present fairly, in all material respects, the financial position of the Commission as of September 30, 2017. These results demonstrate the Commission's commitment to effective internal controls and financial management.

The FY 2017 audit report did not identify any material weaknesses but did identify two significant deficiencies. The first significant deficiency is new for FY 2017 and relates to the potential risk of the Universal Service Administrative Company (USAC) incorrectly recognizing deobligations for the Universal Service Fund's (USF) Schools and Libraries program due to control issues with implementation of a new funding system. The second significant deficiency is a repeat finding that relates to the FCC's controls over its information technology (IT) systems. The FCC concurs with the recommendations made by the independent auditors.

With respect to the finding related to USAC budgetary accounting, the Commission is aware that USAC experienced delays and challenges with the implementation of its E-Rate Productivity Center (EPC) during Funding Year 2016 for the Schools and Libraries program. In addition to the issues noted by the auditors, problems with EPC's deployment resulted in delays in processing applications for program funding, and the FCC has been very proactive in working with USAC to resolve the EPC system's deficiencies. During FY 2017, the FCC's Chairman directed USAC to resolve the program deficiencies with EPC, improve USAC transparency and accountability, and identify alternative options to assist applicants in the event of EPC system failures. Working with the FCC's staff, USAC has taken several steps to resolve the problems that it encountered with EPC's initial deployment. These efforts include: (1) implementing redevelopment work to ensure that all EPC processes function efficiently for Funding Year 2017 and beyond; (2) deploying resolutions

for system issues affecting the completion of Funding Year 2016 and Funding Year 2017 applications; (3) resolving system issues identified in post-commitment review processes; (4) completing development of post-commitment features; and (5) ensuring Funding Year 2018 FCC forms and processes are updated and capable for use with multiple funding years. These corrective actions are well underway, and the FCC will work to fully remediate the auditor's recommendations related to this significant deficiency as quickly as possible.

For the second finding related to IT controls, the FCC's IT team is committed to addressing the recommendations identified by the auditors in the areas of risk management, information security continuous monitoring, and identity and access management. The FCC is working on corrective actions already; ongoing efforts include the following initiatives. The FCC's IT team is currently supporting the Commission's implementation of a fully integrated Enterprise Risk Management (ERM) program that will ensure that information security risks are identified at the Bureau and Office level. Integrating ERM will help the FCC obtain an enterprise-wide view of its risks to identify potential commonalities in areas of concern across the FCC. The FCC's IT team will also focus attention on completing thorough system authorizations and collaborating with IT system owners to address and remediate critical risks in a timely manner. Furthermore, reducing system vulnerabilities through a mature patch-management process while continuing efforts to modernize the FCC's legacy applications are important ongoing initiatives for the FCC's IT team. Finally, during FY 2018, the FCC's IT team will also prioritize the implementation of an automated identity and access management solution to streamline current manual processes and minimize human error.

We look forward to working in FY 2018 to resolve the FY 2017 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.



Mark Stephens  
Managing Director  
Office of the Managing Director



Kathleen Heur  
Chief Financial Officer  
Office of the Managing Director



Christine Calvosa  
Acting Chief Information Officer  
Office of the Managing Director

## PRINCIPAL STATEMENTS

### FEDERAL COMMUNICATIONS COMMISSION CONSOLIDATED BALANCE SHEET

As of September 30, 2017 and 2016

(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Assets</b> (Note 2):		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 12,790,101	\$ 3,568,793
Investments (Note 5)	7,101,239	8,022,992
Accounts receivable (Note 6)	491	506
Other	4,373	3,740
<b>Total intragovernmental</b>	<u>19,896,204</u>	<u>11,596,031</u>
Cash and other monetary assets (Note 4)	113,743	9,095,208
Accounts receivable, net (Note 6)	718,905	927,444
General property, plant, and equipment, net	62,117	48,426
Other	13,024	13,024
<b>Total assets</b>	<u>\$ 20,803,993</u>	<u>\$ 21,680,133</u>
<b>Liabilities</b> (Note 7):		
<b>Intragovernmental</b>		
Accounts payable	\$ 534	\$ 676
Other (Note 8)		
Custodial	8,637,202	3,033,683
Other	5,665	4,782
Total other	<u>8,642,867</u>	<u>3,038,465</u>
<b>Total intragovernmental</b>	8,643,401	3,039,141
Accounts payable	264,016	199,051
Federal employee and veteran benefits	2,978	2,838
Other (Note 8)		
Deferred revenue	2,114,141	360,718
Prepaid contributions	42,852	53,390
Accrued liabilities for Universal Service	515,910	549,167
Deposit/Unapplied liability	-	8,949,194
Other	32,163	29,464
Total other	<u>2,705,066</u>	<u>9,941,933</u>
<b>Total liabilities</b>	<u>\$ 11,615,461</u>	<u>\$ 13,182,963</u>
Commitments and contingencies (Note 9)		
<b>Net position:</b>		
Unexpended appropriations - All Other Funds	\$ 2,820	\$ 2,832
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,907,714	8,279,799
Cumulative results of operations - All Other Funds	277,998	214,539
<b>Total net position</b>	<u>\$ 9,188,532</u>	<u>\$ 8,497,170</u>
<b>Total liabilities and net position</b>	<u>\$ 20,803,993</u>	<u>\$ 21,680,133</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION  
CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2017 and 2016  
(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Program costs</b> (Note 11):		
<b>Promoting Economic Growth and National Leadership:</b>		
Total Gross Cost	\$ 5,891,473	\$ 7,153,421
<b>Protecting Public Interest Goals:</b>		
Total Gross Cost	74,314	79,543
<b>Making Networks Work for Everyone</b>		
Total Gross Cost	4,590,446	3,040,999
<b>Promoting Operational Excellence:</b>		
Total Gross Cost	118,497	139,612
<b>Total Program Costs</b>	<u>\$ 10,674,730</u>	<u>\$ 10,413,575</u>
<b>Less: earned revenues not attributed to programs</b>	<u>(518,063)</u>	<u>(536,954)</u>
<b>Net cost of operations</b>	<u>\$ 10,156,667</u>	<u>\$ 9,876,621</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the Years Ended September 30, 2017 and 2016

(Dollars in thousands)

	FY 2017			FY 2016		
	Funds from Dedicated Collections (Note 10)	All Other Funds	Total	Funds from Dedicated Collections (Note 10)	All Other Funds	Total
<b>Cumulative Results of Operations:</b>						
Beginning Balances	\$ 8,279,799	\$ 214,539	\$ 8,494,338	\$ 8,280,330	\$ 165,849	\$ 8,446,179
<b>Budgetary Financing Sources:</b>						
Appropriations used	-	12	12	-	36	36
Non-exchange revenue	9,111,745	-	9,111,745	9,934,946	-	9,934,946
Transfers in/out without reimbursement	1,750,000	-	1,750,000	-	-	-
Other	(242)	-	(242)	1	-	-
		1				
<b>Other Financing Sources (Non Exchange):</b>						
Imputed financing	-	9,974	9,974	-	12,950	12,950
Other	-	(23,448)	(23,448)	-	(23,153)	(23,153)
Total Financing Sources	10,861,503	(13,462)	10,848,041	9,934,947	(10,167)	9,924,780
Net Cost of Operations	10,233,588	(76,921)	10,156,667	9,935,478	(58,857)	9,876,621
Net Change	627,915	63,459	691,374	(531)	48,690	48,159
<b>Cumulative Results of Operations</b>	<b>8,907,714</b>	<b>277,998</b>	<b>9,185,712</b>	<b>8,279,799</b>	<b>214,539</b>	<b>8,494,338</b>
<b>Unexpended Appropriations:</b>						
Beginning Balances	-	2,832	2,832	-	2,868	2,868
<b>Budgetary Financing Sources:</b>						
Appropriations used	-	(12)	(12)	-	(36)	(36)
Total Budgetary Financing Sources	-	(12)	(12)	-	(36)	(36)
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>2,820</b>	<b>2,820</b>	<b>-</b>	<b>2,832</b>	<b>2,832</b>
<b>Net Position</b>	<b>\$ 8,907,714</b>	<b>\$ 280,818</b>	<b>\$ 9,188,532</b>	<b>\$ 8,279,799</b>	<b>\$ 217,371</b>	<b>\$ 8,497,170</b>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION  
COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2017 and 2016

(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Budgetary Resources:</b>		
Unobligated balance brought forward, Oct 1	\$ (1,305,748)	\$ (3,772,841)
Recoveries of prior year unpaid obligations	804,720	780,225
Other changes in unobligated balance (+ or -)	<u>91,965</u>	<u>35,922</u>
Unobligated balance from prior year budget authority, net	(409,063)	(2,956,694)
Appropriations (discretionary and mandatory)	10,853,696	9,974,105
Spending authority from offsetting collections (discretionary and mandatory)	<u>473,741</u>	<u>501,541</u>
Total budgetary resources	<u>\$ 10,918,374</u>	<u>\$ 7,518,952</u>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total) (Note 13)	\$ 16,599,962	
Unobligated balance, end of year:		
Apportioned, unexpired accounts	1,939,386	
Exempt from apportionment, unexpired accounts (Note 1 A.)	(7,628,102)	
Unapportioned, unexpired account	<u>6,441</u>	
Unexpired unobligated balance, end of year	(5,682,275)	
Expired unobligated balance, end of year	<u>687</u>	
Unobligated balance, end of year (total)	<u>(5,681,588)</u>	
Total status of budgetary resources	<u>\$ 10,918,374</u>	
<b>Change in Obligated Balance:</b>		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 9,612,053	\$ 12,122,027
New obligations and upward adjustments	16,599,962	8,824,700
Outlays (gross) (-)	(10,701,004)	(10,554,448)
Recoveries of prior year unpaid obligations (-)	<u>(804,720)</u>	<u>(780,225)</u>
Unpaid obligations, end of year	14,706,291	9,612,054
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,076)	(2,250)
Change in uncollected pymts, Fed sources (+ or -)	<u>746</u>	<u>173</u>
Uncollected pymts, Fed sources, end of year (-)	(1,330)	(2,077)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	\$ 9,609,977	\$ 12,119,777
Obligated balance, end of year (net)	<u>\$ 14,704,961</u>	<u>\$ 9,609,977</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	\$ 11,327,437	\$ 10,475,646
Actual offsetting collections (discretionary and mandatory) (-)	(575,832)	(541,885)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	746	173
Recoveries of prior year paid obligation (discretionary and mandatory)	<u>91,965</u>	<u>35,922</u>
Budget Authority, net (total) (discretionary and mandatory)	<u>\$ 10,844,316</u>	<u>\$ 9,969,856</u>
Outlays, gross (discretionary and mandatory)	\$ 10,701,004	\$ 10,554,448
Actual offsetting collections (discretionary and mandatory) (-)	(575,832)	(541,885)
Outlays, net (total) (discretionary and mandatory)	<u>10,125,172</u>	<u>10,012,563</u>
Distributed offsetting receipts (-)	<u>(96,232)</u>	<u>(92,804)</u>
Agency outlays, net (discretionary and mandatory)	<u>\$ 10,028,940</u>	<u>\$ 9,919,759</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION  
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY**

For the Years Ended September 30, 2017 and 2016  
(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Spectrum Auctions	\$ 17,562,170	\$ 14,354,740
Fines and Penalties	28,069	42,099
Total Cash Collections	<u>17,590,239</u>	<u>14,396,839</u>
Accrual Adjustments (+/-)		
Spectrum Auctions	(21,321)	(3,334,631)
Fines and Penalties	(36,974)	26,696
Total Accrual Adjustments	<u>(58,295)</u>	<u>(3,307,935)</u>
<b>Total Custodial Revenue (Note 18)</b>	17,531,944	11,088,904
<b>Disposition of Collections:</b>		
Transferred to Others:		
U.S. Treasury	(28,069)	(48,452)
Public Safety Trust Fund (NTIA)	-	(8,430,058)
TV Broadcasters Relocation Fund (FCC)	(1,750,000)	-
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(5,603,519)	(2,493,394)
Refunds and Other Payments		
Auctions Salaries & Expenses (FCC) (Note 1 S & Note 15)	(117,000)	(117,000)
Reverse Auction Winners (Note 1 Q)	(10,033,356)	-
<b>Total Disposition of Collections</b>	(17,531,944)	(11,088,904)
<b>Net Custodial Activity</b>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

## **Notes to the Principal Financial Statements**

**FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

(Dollars in thousands unless otherwise stated)

### **Note 1 – Summary of Significant Accounting Policies**

#### **A. Reporting Entity**

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

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF reports the results of the four Universal Service support mechanisms (established pursuant to section 254 of the Act, as amended) and the results of the Telecommunications Relay Service (TRS) Fund (established by the Americans with Disabilities Act of 1990, Title IV). The four universal service support mechanisms are: High Cost, Lifeline, Rural Health Care, and School and Libraries. Section 510 of Division E of the Consolidated Appropriations Act, 2017, P.L. 115–31, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, to extend the four universal service support mechanisms' exemption from the application of the provisions of the Antideficiency Act until December 31, 2018. Accordingly, these funds are not subject to apportionment by the Office of Management and Budget (OMB). The TRS Fund is not exempt from the Antideficiency Act and must be apportioned by OMB before funds are available for use. The NANP reports the results of billing and collection activities conducted to support the NANP (47 U.S.C. § 251(e); 47 C.F.R. § 52.16, 52.17, 52.32, and 52.33). NANP is included in the Commission's consolidated Balance Sheet, Statement of Net Cost, and Changes in Net Position since it meets the indicative criteria of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, Entity and Display. NANP is not subject to budgetary accounting, and Congress has not appropriated funds for NANP in an appropriation bill; as a result these funds are not included in the President's Budget.

#### **B. Basis of Accounting and Presentation**

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

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

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

### **C. Fund Balance with Treasury**

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general, revolving, 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.

### **D. Cash and Other Monetary Assets**

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

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

### **E. Investments**

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

### **F. Accounts Receivable, Net**

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

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

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

### **G. General Property, Plant and Equipment, Net**

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

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

### G. General Property, Plant and Equipment, Net (continued)

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

<u>PP&amp;E Classification</u>	<u>Estimated Useful Lives (years)</u>
Building	40
Non-Computer Equipment	7
Computer & Vehicle Equipment	5
Software	3

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

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

### H. Other Assets

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

### I. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. As a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the Lifeline, and TRS programs as well as certain programs within High Cost. The obligations are recognized for subsidies related to certain programs, including: the Mobility Fund Phase I, the Connect America Fund (CAF) Phase II, Rural Broadband Experiment, Alternative Connected America Model (A-CAM), Alaska Plan, Frozen Support in high cost areas, and National Deaf-Blind Equipment Distribution Program in TRS. For these programs, an accrual is made to Accounts Payable instead of Accrued Liabilities. The Commission does not accrue for payments under the Schools & Libraries or Rural Health Care programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

### J. Deferred Revenue

The Commission collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a “prepared to grant” or “grant” public notice is issued.

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

### **J. Deferred Revenue (continued)**

In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

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

### **K. Retirement Plans and Other Benefits**

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

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to 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 1% of gross pay and match dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. No government contributions are made to the TSP accounts established by CSRS employees. Most employees hired after December 31, 1983, are covered by the FERS plans.

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

The actuarial liability for future workers' compensation benefits payable includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payment.

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

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

### L. Leave

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

### M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals: Promoting Economic Growth and National Leadership; Protecting Public Interest Goals; Making Networks Work for Everyone; and Promoting Operational Excellence. These fees were established by congressional authority, and consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission’s appropriation at the close of each fiscal year. The regulatory fee levels of \$356,711 for FY 2017 and \$384,012 for FY 2016 were achieved. The Commission collected \$9,379 above the required regulatory level in FY 2017 and \$4,249 in FY 2016. The cumulative amount collected above the required annual regulatory level is \$111,995 as of September 30, 2017. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission’s primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to either the Treasury or the appropriate agency required by Public Law, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were appropriated at \$117,000 for FY 2017 and FY 2016.

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 \$17,540,849 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2017 and \$11,020,109 in FY 2016. In FY 2017, the Commission paid \$10,033,356 of Incentive Auction proceeds to Reverse Auction winners and transferred \$1,750,000 to the TV Broadcasters Relocation Fund. In FY 2016, the Commission transferred custodial revenue from Auction 97 of \$8,430,058 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and \$6,353 from other Auctions to the Treasury General Fund.

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

### M. Exchange Revenue and Financing Sources (continued)

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services over which the Commission has jurisdiction. Section 8(b) of the Act, as amended, requires the Commission to review and amend its application fees every two years. The amended fees (Schedule of Application Fees 14 U.S.C. § 1.1102 *et seq.*) reflect the net change in the Consumer Price Index for all Urban Consumers calculated over a specific period of time. Application fees are deposited in the Treasury and are not available for the Commission’s use. Application fee revenue totaled \$23,449 in FY 2017 and \$23,153 in FY 2016.

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 \$676 in FY 2017 and \$665 in FY 2016.

#### Allocation of Exchange Revenues

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

USF (Financing Source) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent dedicated collections and are accounted for as a budgetary financing source. Total contributions of \$9,039,570 and \$9,879,389 were received in FY 2017 and FY 2016, respectively. For more information, refer to Note 10.

Appropriations (Financing Source) – The Commission receives a Salaries and Expense appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. Since FY 2014, Congress authorized the Commission to retain its appropriation as available until expended. The no-year appropriations are \$356,711 for FY 2017 and \$384,012 for FY 2016. Regulatory fee collections fully fund the no-year appropriations for FY 2017 and FY 2016.

Subsidy Estimates and Reestimates (Financing Source) – The Fair Credit Reporting Act (FCRA) of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. As required, the Commission coordinates with OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The last active loan matured in April 2007 and the Commission wrote off all remaining loans in FY 2013. As result, there was no material activity related to direct loans in FY 2017 and FY 2016, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy reestimate was completed in September 30, 2015; OMB waived the need to perform a subsidy reestimate in FY 2017 and FY 2016. The Commission did not receive an appropriation in FY 2017 and FY 2016.

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

### N. Reprogramming

In FY 2017, the Commission received approval to reprogram \$4,970 of prior year de-obligations to fund various auction related and non-auction related projects. Non-auction related projects include retroactive increase in the transit subsidy benefit, information technology investment for the Office of Engineering and Technology (OET), National Broadband Map project, and the transition to the electronic Official Personnel Folder program mandated by the Office of Personnel Management. Auction related projects include Integrated Spectrum Auction System (ISAS) modernization, and the implementation of an Enterprise Auction Search and Analytical Tool. In FY 2016, the Commission received approval to reprogram \$4,068 of prior year de-obligations to modernize the Enforcement Bureau’s field office operations and the Consumer & Governmental Affairs Bureau.

### O. Transactions with Related Parties

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

The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances for the fiscal years ended September 30, 2017 and 2016 are listed below:

<u>Administrative Fees:</u>	USF	TRS	NANP	Total
FY 2017	\$ 181,076	\$ 10,728	\$ 6,459	\$ 198,263
FY 2016	\$ 158,881	\$ 10,008	\$ 5,923	\$ 174,812

### 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.

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

### **Q. Incentive Auction**

In FY 2017, the Commission completed both the reverse and forward auction of the Incentive Auction, which redistributes spectrum usage rights by utilizing market forces to align the use of broadcast spectrum with demands for wireless broadband. The Incentive Auction began on March 29, 2016. The release of the Incentive Auction Closing and Channel Reassignment Public Notice DA-17-314 on April 13, 2017, marked the completion of the Incentive Auction and the start of the 39-month post auction transition period.

Proceeds from the forward auction totaled \$19,318,073. During FY 2017, the Commission granted sufficient spectrum licenses to meet the minimum statutory threshold, and made \$10,033,356 incentive payments to the reverse auction winners. Authorized by the Middle Class Tax Relief and Job Creation Act of 2012 (Spectrum Act), the Commission transferred \$1,750,000 in forward auction proceeds to the TV Broadcasters Relocation Fund in FY 2017. The Commission shall reimburse costs reasonably incurred by TV broadcasters that are involuntarily reassigned to new channels as a result of the repacking process and by multichannel video programming distributors (MVPDs) in order to continue carrying the signals of such stations. Obligations, expenses and liabilities relating to approved reimbursements are expected to begin in FY 2018.

### **R. Rate of Return**

In FY 2017, USF gave rate-of-return carriers the option to elect model based support that would provide a fixed amount of monthly support over ten years. In return, carriers agreed to meet specific build out obligations. During the year, 207 carriers accepted \$5,283,553 in support from the Alternative Connect America Cost Model (A-CAM) and 21 carriers accepted \$1,283,137 in support from the Alaska Plan. The disbursements for the A-CAM and Alaska Plan will be in monthly installments over a 10-year period.

### **S. Comparative Data**

Consolidated Statement of Custodial Activity (SCA) – The presentation for Auction Salaries & Expenses has been revised according to the Federal Communications Commission Spectrum Auction Scenario approved by Treasury in FY 2017. This activity is reported under “Refunds and Other Payments.” Accordingly, the reclassification was made to FY 2016 SCA to be comparative.

**Note 2 – Non-entity Assets**

The following summarizes Non–entity Assets as of September 30, 2017 and 2016:

	FY 2017	FY 2016
Intragovernmental:		
Fund Balance with Treasury	\$ 10,710,394	\$ 3,291,722
Accounts Receivable	457	376
Total Intragovernmental	10,710,851	3,292,098
Cash and Other Monetary Assets	-	8,947,086
Accounts Receivable, Net	24,410	60,583
Total Non-entity Assets	10,735,261	12,299,767
Total Entity Assets	10,068,732	9,380,366
Total Assets	\$ 20,803,993	\$ 21,680,133

Non-entity Fund Balance with Treasury (FBWT) and Cash and Other Monetary Assets primarily represents auction deposits. Accounts receivable considered non-entity are for 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, 2017 and 2016:

<u>FY 2017</u>	General Funds	Revolving Funds	Special Funds	Deposit Funds	Total
Unobligated Balance					
Available	\$ 112,232	\$ -	\$ 1,629,250	\$ -	\$ 1,741,482
Unavailable	136,212	9	120,750	-	256,971
Obligated Balance not yet Disbursed	81,254	-	-	-	81,254
Non-Budgetary FBWT	-	-	-	10,710,394	10,710,394
Total	\$ 329,698	\$ 9	\$ 1,750,000	\$ 10,710,394	\$ 12,790,101
<u>FY 2016</u>					
Unobligated Balance					
Available	\$ 76,720	\$ -	\$ -	\$ -	\$ 76,720
Unavailable	128,684	4	-	-	128,688
Obligated Balance not yet Disbursed	71,663	-	-	-	71,663
Non-Budgetary FBWT	-	-	-	3,291,722	3,291,722
Total	\$ 277,067	\$ 4	\$ -	\$ 3,291,722	\$ 3,568,793

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

**Note 3 – Fund Balance with Treasury (Continued)**

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

Special Funds – Includes funds from the TV Broadcaster Relocation fund. These funds are for relocation costs reasonably incurred by broadcasters and MVPDs who are involuntarily reassigned to new channels or incur costs as a result of the Incentive Auction post-auction repackaging process.

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, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Cash and Other Monetary Assets	<u>\$ 113,743</u>	<u>\$ 9,095,208</u>

USF and NANP contributions and upfront payments made pursuant to spectrum auction activities are the sources of funds for these balances. Upfront payments, unless refunded, are held until 45 days after the close of a given auction and then transferred to the Commission’s Treasury account. In FY 2016, upfront payments for the forward auction of the Incentive Auction were deposited in the Federal Reserve Bank of New York. For more information refer to Note 1 Q. Interest earned on USF and NANP contributions is reinvested.

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

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

## Note 5 – Investments

The following summarizes Investments as of September 30, 2017 and 2016:

	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
<u>FY 2017</u>						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	\$ 1,959,505	EI	\$ 1,631	\$ -	\$ 1,961,136	\$ 1,961,232
Treasury Notes	5,124,411	EI	4,597	11,095	5,140,103	5,104,783
Total	<u>\$ 7,083,916</u>		<u>\$ 6,228</u>	<u>\$ 11,095</u>	<u>\$ 7,101,239</u>	<u>\$ 7,066,015</u>
<u>FY 2016</u>						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	\$ 1,771,394	EI	\$ 681	\$ -	\$ 1,772,075	\$ 1,772,330
Treasury Notes	6,231,576	EI	6,609	12,732	6,250,917	6,254,071
Total	<u>\$ 8,002,970</u>		<u>\$ 7,290</u>	<u>\$ 12,732</u>	<u>\$ 8,022,992</u>	<u>\$ 8,026,401</u>

EI - Effective Interest Method

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustment has been made to present market value in FY 2017 and FY 2016. All investments are held by USF and are also recognized as part of Note 10 – Funds from Dedicated Collections.

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

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

**Note 6 – Accounts Receivable, Net**

The following summarizes Accounts Receivable, Net as of September 30, 2017 and 2016:

	Intragovernmental	Public	Total
<u>FY 2017</u>			
Gross Accounts Receivable	\$ 491	\$ 1,339,811	\$ 1,340,302
Allowance for Doubtful Accounts	-	(620,906)	(620,906)
Accounts Receivable, Net	<u>\$ 491</u>	<u>\$ 718,905</u>	<u>\$ 719,396</u>
<u>FY 2016</u>			
Gross Accounts Receivable	\$ 506	\$ 1,456,940	\$ 1,457,446
Allowance for Doubtful Accounts	-	(529,496)	(529,496)
Accounts Receivable, Net	<u>\$ 506</u>	<u>\$ 927,444</u>	<u>\$ 927,950</u>

The following summarizes accounts receivable by type as of September 30, 2017 and 2016:

	FY 2017			FY 2016		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	\$ 986,993	\$ (299,472)	\$ 687,521	\$ 1,134,587	\$ (273,674)	\$ 860,913
COMAD - Schools and Libraries	151,246	(148,085)	3,161	121,743	(118,930)	2,813
Regulatory Fees	30,890	(23,725)	7,165	30,791	(24,421)	6,370
Spectrum Auction	8,707	(8,707)	-	21,127	(21,127)	-
Civil Monetary Penalties	148,190	(133,228)	14,962	135,412	(83,547)	51,865
Other	14,276	(7,689)	6,587	13,786	(7,797)	5,989
Total	<u>\$ 1,340,302</u>	<u>\$ (620,906)</u>	<u>\$ 719,396</u>	<u>\$ 1,457,446</u>	<u>\$ (529,496)</u>	<u>\$ 927,950</u>

The Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries recorded a 98% allowance rate in FY 2017 and FY 2016.

## Note 7 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Intragovernmental:		
FECA Liability	\$ 536	\$ 560
Unemployment Liability	48	1
GSA Real Estate Taxes	2,995	2,148
Total Intragovernmental	<u>3,579</u>	<u>2,709</u>
Actuarial FECA Liability	2,978	2,838
Other:		
Unfunded Leave	17,540	18,629
Accrued Liabilities for Universal Service	515,910	549,167
Total liabilities not covered by budgetary resources	<u>540,007</u>	<u>573,343</u>
Total liabilities covered by budgetary resources	11,075,454	12,609,620
Total Liabilities	<u>\$ 11,615,461</u>	<u>\$ 13,182,963</u>

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

## Note 8 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2017 and 2016:

<u>FY 2017</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 8,637,202	\$ 8,637,202
Other	-	5,665	5,665
Total Intragovernmental	\$ -	\$ 8,642,867	\$ 8,642,867
Deferred Revenue	\$ 28,576	\$ 2,085,565	\$ 2,114,141
Prepaid Contributions	-	42,852	42,852
Accrued Liabilities for Universal Service	-	515,910	515,910
Other	-	32,163	32,163
Total Other	\$ 28,576	\$ 2,676,490	\$ 2,705,066
<u>FY 2016</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 3,033,683	\$ 3,033,683
Other	-	4,782	4,782
Total Intragovernmental	\$ -	\$ 3,038,465	\$ 3,038,465
Deferred Revenue	\$ 31,948	\$ 328,770	\$ 360,718
Prepaid Contributions	-	53,390	53,390
Accrued Liabilities for Universal Service	-	549,167	549,167
Deposit/ Unapplied Liability	-	8,949,194	8,949,194
Other	-	29,464	29,464
Total Other	\$ 31,948	\$ 9,909,985	\$ 9,941,933

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

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service primarily represent anticipated future payments for Lifeline and certain programs within High Cost and TRS. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Deposit Liability represents upfront payments for the forward auction of the Incentive Auction deposited in the Federal Reserve Bank of New York. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, and funds received that are being held until proper application is determined.

## **Note 9 – Commitments and Contingencies**

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

The Commission's current headquarters lease expired on October 17, 2017. On December 18, 2016, the General Services Administration (GSA) signed a lease with a new lessor contemplating the Commission's occupancy of a newly built facility. The FCC's current lessor, a bidder on the solicitation for the new lease, had filed protests of the lease solicitation, first with GSA, and then with the U.S. Government Accountability Office (GAO), which were denied. The current lessor thereafter filed a solicitation protest with the U.S. Court of Federal Claims (COFC), which was supplemented with other pre-award protest issues, and that protest was denied in November 2016. Upon award of the new lease to a different lessor, the current lessor sought an injunction against performance of the new lease while it pursued an appeal in the U.S. Court of Appeals for the Federal Circuit (CAFC) against the adverse COFC decision. The appeal on the merits and request for injunctive relief remain pending in CAFC, but has been stayed while the parties attempt to negotiate a settlement. The Commission cannot move to the new facility without resolution of the case, and, in any event, without more progress on construction of the new building, it is unable to move to the new building. The GSA is negotiating with the current lessor for a lease extension, and at this juncture is unable to provide the Commission with the impact on rent cost for the extension.

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

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

As of September 30, 2017, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

## **Note 10 – Funds from Dedicated Collections**

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

Pursuant to the Spectrum Act, the Commission shall reimburse relocation costs reasonably incurred by TV Broadcasters and MVPDs who are involuntarily reassigned to new channels or incur costs as a result of the Incentive Auctions post-auction repacking process. These reimbursement costs are accounted for in the U.S. Budget as the “TV Broadcaster Relocation Fund” which is funded by forward auction proceeds. The Commission currently recognizes the transfer to the TV Broadcaster Relocation Fund as Transfers in without reimbursement on its Statement of Changes in Net Position.

The Commission had no activity related to Gifts and Bequests in FY 2017 and FY 2016.

The following summarizes the significant assets, liabilities, and related costs incurred related to the USF Program and the TV Broadcaster Relocation Fund as of September 30, 2017 and 2016:

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

<u>FY 2017</u>	<u>TV Broadcaster Relocation Fund</u>	<u>Universal Service Fund</u>	<u>Total Funds from Dedicated Collections</u>
<b>Balance Sheet</b>			
Assets:			
Fund Balance with Treasury	\$ 1,750,000	\$ -	\$ 1,750,000
Investments	-	7,101,239	7,101,239
Cash and other monetary assets	-	111,066	111,066
Accounts receivable, net	-	691,607	691,607
General property, plant, and equipment, net	-	36,670	36,670
Other assets	-	13,024	13,024
Total assets	<u>\$ 1,750,000</u>	<u>\$ 7,953,606</u>	<u>\$ 9,703,606</u>
Liabilities:			
Accounts payable	\$ -	\$ 229,878	\$ 229,878
Deferred revenue	-	7,268	7,268
Prepaid contributions	-	42,836	42,836
Accrued liabilities	-	515,910	515,910
Total liabilities	<u>\$ -</u>	<u>\$ 795,892</u>	<u>\$ 795,892</u>
Cumulative results of operations	<u>\$ 1,750,000</u>	<u>\$ 7,157,714</u>	<u>\$ 8,907,714</u>
Total liabilities and net position	<u>\$ 1,750,000</u>	<u>\$ 7,953,606</u>	<u>\$ 9,703,606</u>
<b>Statement of Net Cost</b>			
Net cost of operations	<u>\$ -</u>	<u>\$ 10,233,588</u>	<u>\$ 10,233,588</u>
<b>Statement of Changes in Net Position</b>			
Net position beginning of period	\$ -	\$ 8,279,799	\$ 8,279,799
Non-exchange revenue	-	9,111,745	9,111,745
Transfers in/out without reimbursement	1,750,000	-	1,750,000
Other financing sources	-	(242)	(242)
Net cost of operations	-	10,233,588	10,233,588
Change in net position	<u>\$ 1,750,000</u>	<u>\$ (1,122,085)</u>	<u>\$ 627,915</u>
Net position end of period	<u>\$ 1,750,000</u>	<u>\$ 7,157,714</u>	<u>\$ 8,907,714</u>

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

<u>FY 2016</u>	<u>TV Broadcaster Relocation Fund</u>	<u>Universal Service Fund</u>	<u>Total Funds from Dedicated Collections</u>
<b>Balance Sheet</b>			
Assets:			
Investments	\$ -	\$ 8,022,992	\$ 8,022,992
Cash and other monetary assets	-	145,575	145,575
Accounts receivable, net	-	864,642	864,642
General property, plant, and equipment, net	-	29,081	29,081
Other assets	-	13,024	13,024
Total assets	<u>\$ -</u>	<u>\$ 9,075,314</u>	<u>\$ 9,075,314</u>
Liabilities:			
Accounts payable	\$ -	\$ 185,598	\$ 185,598
Deferred revenue	-	7,377	7,377
Prepaid contributions	-	53,373	53,373
Accrued liabilities	-	549,167	549,167
Total liabilities	<u>\$ -</u>	<u>\$ 795,515</u>	<u>\$ 795,515</u>
Cumulative results of operations		<u>\$ 8,279,799</u>	<u>\$ 8,279,799</u>
Total liabilities and net position	<u>\$ -</u>	<u>\$ 9,075,314</u>	<u>\$ 9,075,314</u>
<b>Statement of Net Cost</b>			
Net cost of operations	<u>\$ -</u>	<u>\$ 9,935,478</u>	<u>\$ 9,935,478</u>
<b>Statement of Changes in Net Position</b>			
Net position beginning of period	\$ -	\$ 8,280,330	\$ 8,280,330
Non-exchange revenue	-	9,934,946	9,934,946
Other financing sources	-	1	1
Net cost of operations	-	9,935,478	9,935,478
Change in net position	<u>-</u>	<u>(531)</u>	<u>(531)</u>
Net position end of period	<u>\$ -</u>	<u>\$ 8,279,799</u>	<u>\$ 8,279,799</u>

## Note 11 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs and earned revenues are transactions between the Commission and other reporting entities within the Federal Government. Costs and earned revenues with the public are transactions between the Commission and non-Federal entities. If the Commission purchases goods or services from another Federal entity, the related costs are classified as intragovernmental. If the Commission sells them to the public, the earned revenues are classified as with the public. Intragovernmental costs and earned revenues for the years ended September 30, 2017 and 2016 are the following:

### FY 2017

<b>Program Costs</b>	<b>Intragovernmental</b>	<b>Public</b>	<b>Total</b>
Promoting Economic Growth and National Leadership	\$ 24,825	\$ 5,866,648	\$ 5,891,473
Protecting Public Interest Goals	19,543	54,771	74,314
Making Networks Work for Everyone	38,770	4,551,676	4,590,446
Promoting Operational Excellence	31,163	87,334	118,497
Total	<u>\$ 114,301</u>	<u>\$ 10,560,429</u>	<u>\$ 10,674,730</u>
Total Earned Revenue	<u>\$ 677</u>	<u>\$ 517,386</u>	<u>\$ 518,063</u>

### FY 2016

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

## Note 12 – Available Borrowing Authority, End of the Period

As of September 30, 2017, the Commission did not have any available borrowing authority.

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

The following summarizes Apportionment Categories of New obligations and upward adjustments for the years ended September 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Direct:		
Category B	\$ 1,598,981	\$ 1,500,893
Exempt from Apportionment	<u>15,000,278</u>	<u>7,323,133</u>
Total Direct	16,599,259	8,824,026
Reimbursable:		
Category B	<u>703</u>	<u>674</u>
New obligations and upward adjustments (total)	<u>\$ 16,599,962</u>	<u>\$ 8,824,700</u>

Category B - Apportioned by Purpose

**Note 14 – Undelivered Orders at the End of the Period**

The amount of budgetary resources obligated for undelivered orders totaled \$14,466,783 as of September 30, 2017 and \$9,415,759 as of September 30, 2016.

**Note 15 – 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 Telecommunications Relay Service Fund. These programs operate by collecting mandatory contributions from telecommunications carriers providing interstate telecommunications services, and from other providers of interstate telecommunications required to contribute if the public interest so requires. These contributions are accounted for federal budgetary purposes as a special fund known as the Universal Service Fund.

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

Pursuant to 47 U.S.C § 309(j)(8)(B), the FCC can retain proceeds from spectrum auctions for amounts that may be necessary for the costs of developing and implementing the competitive auction program.

**Note 15 – Permanent Indefinite Appropriations (Continued)**

These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C § 309(j)(8)(B), for FY 2017 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to \$117,000.

**Note 16 – Legal Arrangements Affecting Use of Unobligated Balances**

Pursuant to Public Laws, offsetting collections received in excess of \$356,711 in FY 2017 and \$384,012 in FY 2016 are temporarily precluded from obligation. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008. For more information, refer to Note 1 M.

**Note 17 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government**

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2016 and the amounts presented in the FY 2018 President’s Budget. The FY 2019 *Budget of the United States Government* (President’s Budget) with actual numbers for FY 2017 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: <http://www.whitehouse.gov/omb>.

**Note 18 – Custodial Revenues**

In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues related to miscellaneous receipts and fines and forfeitures to the Treasury General Fund. Additionally, there is exchange revenue reported on the Statement of Custodial Activity associated with the radio spectrum auction proceeds. For more information, refer to Note 1 M.

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

As of September 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New obligations and upward adjustments	\$ 16,599,962	\$ 8,824,700
Less: spending authority from offsetting collections and recoveries	1,370,426	1,317,688
Obligations net of offsetting collections and recoveries	<u>15,229,536</u>	<u>7,507,012</u>
Less: offsetting receipts	96,232	92,804
Net obligations	15,133,304	7,414,208
Imputed financing	9,974	12,950
Other Resources	<u>(23,690)</u>	<u>(23,152)</u>
Total Resources Used to Finance Activities	15,119,588	7,404,006
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	(5,051,024)	2,480,041
Resources that fund expenses recognized in prior periods	(1,065)	(838)
Budgetary offsetting collections and receipts that do not affect net cost of operations	96,236	92,808
Resources that finance the acquisition of assets	(29,217)	(31,204)
Other	<u>1,255</u>	<u>11,865</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(4,983,815)</u>	<u>2,552,672</u>
Total Resources Used to Finance the Net Cost of Operations	10,135,773	9,956,678
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(1,040)	(832)
Increase in exchange revenue receivable from the public	(4,767)	(2,187)
Depreciation and amortization	17,008	12,366
Other (+/-)	<u>9,693</u>	<u>(89,404)</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>20,894</u>	<u>(80,057)</u>
Net Cost of Operations	<u>\$ 10,156,667</u>	<u>\$ 9,876,621</u>

**Note 20 – Subsequent Event**

On October 16, 2017, the Commission released a Public Notice (PN) regarding the initial reimbursement allocation of the TV Broadcaster Relocation Fund for eligible broadcasters and MVPDs. In the PN (DA- 17-1015), the Commission established a total allocation slightly over \$1 billion to reimburse eligible entities for expenses related to the construction of station facilities on reassigned channels. Obligations, expenses and liabilities relating to approved reimbursements began in FY 2018.

## **Required Supplementary Information**

### **REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT**

For the Years Ended September 30, 2017 and 2016  
(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, Television Broadcasters Relocation Fund (TV), and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auction program. TV represents reimbursements for Television broadcasters and MVPDs relocation costs due to the Incentive Auction. USF includes Universal Service Fund and Telecommunications Relay Service Funds. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the chart below are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2017 and 2016 Combined Statement of Budgetary Resources.

**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT**

**FY 2017**

	S&E	Auctions	TV	USF	Other	Total
<b>Budgetary Resources:</b>						
Unobligated balance brought forward, October 1	\$ 67,191	\$ 15,790	\$ -	\$ (1,391,444)	\$ 2,715	\$ (1,305,748)
Recoveries of prior year unpaid obligations	5,196	2,538	-	796,957	29	804,720
Other changes in unobligated balance (+ or -)	1,173	41	-	90,751	-	91,965
Unobligated balance from prior year budget authority, net	73,560	18,369	-	(503,736)	2,744	(409,063)
Appropriations (discretionary and mandatory)	-	-	1,629,250	9,224,446	-	10,853,696
Spending authority from offsetting collections (discretionary and mandatory)	356,737	117,000	-	-	4	473,741
Total budgetary resources	\$ 430,297	\$ 135,369	\$ 1,629,250	\$ 8,720,710	\$ 2,748	\$ 10,918,374

**Status of Budgetary Resources:**

New obligations and upward adjustments (total)	\$ 343,028	\$ 105,995	\$ -	\$ 16,150,908	\$ 31	\$ 16,599,962
Unobligated balance, end of year:						
Apportioned, unexpired accounts	83,181	26,372	1,629,250	197,904	2,679	1,939,386
Exempt from apportionment, unexpired accounts	-	-	-	(7,628,102)	-	(7,628,102)
Unapportioned, unexpired accounts	3,412	2,991	-	38	6,441	
Unexpired unobligated balance, end of year	86,593	29,363	1,629,250	(7,430,198)	2,717	(5,682,275)
Expired unobligated balance, end of year	676	11	-	-	-	687
Unobligated balance, end of year (total)	87,269	29,374	1,629,250	(7,430,198)	2,717	(5,681,588)
Total status of budgetary resources	\$ 430,297	\$ 135,369	\$ 1,629,250	\$ 8,720,710	\$ 2,748	\$ 10,918,374

**Change in Obligated Balance:**

Unpaid obligations:

Unpaid obligations, brought forward, Oct 1	\$ 39,757	\$ 33,860	\$ -	\$ 9,538,314	\$ 122	\$ 9,612,053
New obligations and upward adjustments	343,028	105,995	-	16,150,908	31	16,599,962
Outlays (gross) (-)	(330,166)	(102,267)	-	(10,268,558)	(13)	(10,701,004)
Recoveries of prior year unpaid obligations (-)	(5,196)	(2,538)	-	(796,957)	(29)	(804,720)
Unpaid obligations, end of year	47,423	35,050	-	14,623,707	111	14,706,291
Uncollected payments:						
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,076)	-	-	-	-	(2,076)
Change in uncollected pymts, Fed sources (+ or -)	746	-	-	-	-	746
Uncollected pymts, Fed sources, end of year (-)	(1,330)	-	-	-	-	(1,330)
Memorandum (non-add) entries						
Obligated balance, start of year (+ or -)	\$ 37,681	\$ 33,860	\$ -	\$ 9,538,314	\$ 122	\$ 9,609,977
Obligated balance, end of year (net)	\$ 46,093	\$ 35,050	\$ -	\$ 14,623,707	\$ 111	\$ 14,704,961

**Budget Authority and Outlays, Net:**

Budget authority, gross (discretionary and mandatory)	\$ 356,737	\$ 117,000	\$ 1,629,250	\$ 9,224,446	\$ 4	\$ 11,327,437
Actual offsetting collections (discretionary and mandatory) (-)	(368,036)	(117,041)	-	(90,751)	(4)	(575,832)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	746	-	-	-	-	746
Recoveries of prior year paid obligations (discretionary and mandatory)	1,173	41	-	90,751	-	91,965
Budget Authority, net (discretionary and mandatory)	\$ (9,380)	\$ -	\$ 1,629,250	\$ 9,224,446	\$ -	\$ 10,844,316
Outlays, gross (discretionary and mandatory)	\$ 330,166	\$ 102,267	\$ -	\$ 10,268,558	\$ 13	\$ 10,701,004
Actual offsetting collections (discretionary and mandatory) (-)	(368,036)	(117,041)	-	(90,751)	(4)	(575,832)
Outlays, net (discretionary and mandatory)	(37,870)	(14,774)	-	10,177,807	9	10,125,172
Distributed offsetting receipts (-)	(25,999)	-	-	(70,233)	-	(96,232)
Agency outlays, net (discretionary and mandatory)	\$ (63,869)	\$ (14,774)	\$ -	\$ 10,107,574	\$ 9	\$ 10,028,940

**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT**

**FY 2016**

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



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