UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

OFFICE OF THE
INSPECTOR GENERAL

November 9, 2017

MEMORANDUM TO: Chairman Svinicki

FROM: Hubert T. Bell ***/RA/ David Lee for***
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2017 (OIG-18-A-04)

The *Chief Financial Officers Act of 1990*, as amended (*CFO Act*), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained Acuity Consulting, Inc. (Acuity), to conduct this annual audit. Transmitted with this memorandum is Acuity's report, which contains the following:

- Opinion on the Principal Statements.
- Opinion on Internal Control.
- Report on Compliance with Laws and Regulations.

NRC's Agency Financial Report includes comparative financial statements for Fiscal Years (FY) 2017 and 2016. Acuity performed the audit of the FY 2017 financial statements. The predecessor auditor, CliftonLarsonAllen LLP, performed the audit for the FY 2016 financial statements.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

The audit included, among other things, obtaining an understanding of NRC and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies, or procedures may deteriorate.

FY 2017 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Controls

- Unmodified opinion.

Compliance with Laws and Regulations

- No instances of noncompliance noted.

Office of the Inspector General Oversight of Acuity Performance

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored Acuity's audit of NRC's FY 2017 financial statements by:

- Reviewing Acuity's audit approach and planning.
- Evaluating the qualifications and independence of Acuity's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.

- Reviewing Acuity's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 17-03.

- Coordinating the issuance of the audit report.

- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditors' report, dated November 7, 2017, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with Government Auditing Standards, was not intended to enable us to express an opinion, and accordingly we do not express an opinion on:

- NRC's financial statements.

- Effectiveness of NRC's internal control over financial reporting.

- NRC's compliance with laws and regulations.

However, our monitoring review, as described above, disclosed no instances where Acuity did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on November 7, 2017, representatives of the Office of the Chief Financial Officer, OIG, and Acuity discussed the results of the audit.

Comments of the Chief Financial Officer

In her response, the Chief Financial Officer agreed with the report. The full text of her response follows this report.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

cc: Commissioner Baran
Commissioner Burns
M. Wylie, OCFO
R. Lewis, OEDO
H. Rasouli, OEDO
J. Jolicoeur, OEDO
J. Bowen, OEDO
EDO_ACS_Distribution
RidsOCFOMailCenter Resource

November 7, 2017

Members of AICPA

Audit of the Nuclear Regulatory Commission's Annual Financial Statements

FY 2017 Financial Statements

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

Independent Auditor's Report on the Financial Statements

We have audited the accompanying balance sheet of the Nuclear Regulatory Commission (NRC) as of September 30, 2017, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and the OMB bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 NRC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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

Other Matter

The accompanying balance sheet of the NRC as of September 30, 2016, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended were audited by a predecessor auditor, CliftonLarsonAllen LLP (CLA). CLA expressed an unmodified opinion on NRC's September 30, 2016, financial statements in its report dated November 8, 2016. That report also referred to other matters regarding Required Supplementary Information (RSI) and other information, including performance data, contained in NRC's Fiscal Year 2016 Performance and Accountability Report (PAR). CLA noted the application of limited procedures conducted with respect to the RSI, and the absence of audit procedures conducted with respect to the other PAR information, and CLA expressed no opinion or assurances with respect to that information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The RSI, including "Management's Discussion & Analysis," are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America; OMB Circular A-136, *Financial Reporting Requirements*; and the Federal Accounting Standards Advisory Board (FASAB). This supplementary information is the responsibility of the NRC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Independent Auditor's Report on Internal Control over Financial Reporting

We have audited NRC's internal control over financial reporting as of September 30, 2017, based on criteria established under 31 U.S.C. 3512 (c) and (d), commonly known as the Federal

Managers' Financial Integrity Act of 1982 (FMFIA), and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Management's Responsibility for Internal Control

NRC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, evaluating the effectiveness of internal control over financial reporting based on the criteria noted above, and for its statement of assurance on the effectiveness of internal control over financial reporting.

Auditor's Responsibility for Internal Control

Our responsibility is to express an opinion on NRC's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards established by the American Institute of Certified Public Accountants and incorporated in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance that (1) records are maintained in reasonable detail, and accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management

and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of our audit results to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on Internal Control over Financial Reporting

In our opinion, NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on FMFIA and OMB Circular A-123 criteria.

Report on Compliance Based Upon an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

As part of obtaining reasonable assurance about whether the NRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 17-03. The results of our tests for the year ended September 30, 2017, disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards.* 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 of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA) disclosed no instances in which NRC's financial management systems did not substantially comply with (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; or (3) the United States Standard General Ledger (USSGL) at the transaction level.

Management's Responsibility for Compliance

Management is responsible for ensuring NRC's financial management systems are in substantial compliance with FFMIA requirements, and ensuring compliance with other applicable laws, regulations, contracts, and agreements.

Auditor's Responsibility for Compliance

Our responsibility is to test compliance with certain provisions of laws, regulations, contracts, and agreements that have a direct effect on the determination of material financial statement amounts and disclosures. We did not test compliance with all laws, regulations, contracts, and agreements applicable to NRC. We limited our tests of compliance to certain provisions of laws,

regulations, contracts, and agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. 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.

Agency Comments

NRC provided comments to our audit report, which are included in the Agency Financial Report. We reviewed NRC's response and took no issue with it.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
Alexandria, Virginia
November 7, 2017

CHIEF FINANCIAL OFFICER

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

November 6, 2017

MEMORANDUM TO: Brett M. Baker
Assistant Inspector General for Audits
Office of the Inspector General

FROM: Maureen E. Wylie ***/RA/ Ben Ficks for***
Chief Financial Officer

SUBJECT: AUDIT OF THE FISCAL YEAR 2017 FINANCIAL STATEMENTS

We appreciate the collaborative relationship between the Office of the Inspector General, the auditors, and the Office of the Chief Financial Officer in supporting our continuing effort to improve financial reporting. We have reviewed the Independent Auditor's Report of the Agency's fiscal year 2017 financial statements and are in agreement with it.

cc: V. McCree, EDO
R Lewis, AO/OEDO
H. Rasouli, DAO/OEDO
J. Jolicoeur, OEDO
J. Bowen, OEDO

CONTACT: Susan Jones/DOC/FRAB
(301) 415-6072

Nuclear Regulatory Commission's (NRC)
Financial Statements
For Fiscal Year 2017

(Extracted from NRC's Fiscal Year 2017 Agency Financial Report, Pages 32-56)

Financial Statements

Balance Sheet *(IN THOUSANDS)*

As of September 30,	2017	2016
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 365,832**	$ 368,237
Accounts receivable (Note 3)	**7,152**	7,754
Advances and prepayments	**12,752**	14,169
Total intragovernmental	**385,736**	390,160
Accounts receivable, net (Note 3)	**79,874**	78,383
Property and equipment, net (Note 4)	**79,910**	80,793
Other	**51**	26
Total Assets	**$ 545,571**	$ 549,362
Liabilities		
Intragovernmental		
Accounts payable	**$ 6,759**	$ 7,729
Other (Note 5)	**5,586**	5,972
Total intragovernmental	**12,345**	13,701
Accounts payable	**23,673**	23,204
Federal employee benefits (Note 6)	**5,370**	5,608
Other (Note 5)	**72,571**	85,486
Total Liabilities	**113,959**	127,999
Net Position		
Unexpended appropriations	**306,831**	297,438
Cumulative results of operations (Note 8)	**124,781**	123,925
Total Net Position	**431,612**	421,363
Total Liabilities and Net Position	**$ 545,571**	$ 549,362

The accompanying notes to the financial statements are an integral part of these statements.

Statement of Net Cost *(IN THOUSANDS)*

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety		
Gross costs	**$ 736,794**	$ 795,190
Less: Earned revenue	**(710,086)**	(769,847)
Total Net Cost of Nuclear Reactor Safety (Note 9)	**26,708**	25,343
Nuclear Materials and Waste Safety		
Gross costs	**203,826**	220,165
Less: Earned revenue	**(86,168)**	(94,167)
Total Net Cost of Nuclear Materials and Waste Safety (Note 9)	**117,658**	125,998
Net Cost of Operations	**$ 144,366**	$ 151,341

The accompanying notes to the financial statements are an integral part of these statements.

Statement of Changes in Net Position *(IN THOUSANDS)*

For the fiscal years ended September 30,	2017	2016
Cumulative Results of Operations		
Beginning Balance	**$ 123,925**	$ 129,104
Adjustments (Note 8)	**6,413**	3,180
Beginning Balance, as adjusted	**$ 130,338**	$ 132,284
Budgetary Financing Sources		
Appropriations used (Note 11)	**118,087**	115,575
Nonexchange revenue (Note 11)	**251**	274
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 11)	**20,722**	27,407
Other	**(251)**	(274)
Total Financing Sources	**138,809**	142,982
Net Cost of Operations	**(144,366)**	(151,341)
Net Change	**(5,557)**	(8,359)
Cumulative Results of Operations	**$ 124,781**	$ 123,925
Unexpended Appropriations		
Beginning Balance	**$ 297,438**	$ 283,151
Adjustments (Note 8)	**–**	(3,180)
Beginning Balance, as adjusted	**$ 297,438**	$ 279,971
Budgetary Financing Sources		
Appropriations received	**127,480**	133,042
Appropriations used (Note 11)	**(118,087)**	(115,575)
Other adjustments	**–**	–
Total Budgetary Financing Sources	**9,393**	17,467
Total Unexpended Appropriations	**306,831**	297,438
Net Position	**$ 431,612**	$ 421,363

The accompanying notes to the financial statements are an integral part of these statements.

Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal years ended September 30,	2017	2016
Budgetary Resources		
Unobligated balance brought forward, October 1	**$ 41,627**	$ 28,000
Recoveries of prior-year unpaid obligations	**14,503**	8,858
Recoveries of prior-year paid obligations	**330**	156
Unobligated balance from prior-year budget authority, net	**56,460**	37,014
Appropriations	**917,129**	1,002,136
Spending authority from offsetting collections	**5,626**	4,794
Total Budgetary Resources	**$ 979,215**	$ 1,043,944
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 12)	**$ 940,527**	$ 1,002,317
Unobligated balance, end of year		
Apportioned, unexpired accounts	**35,071**	39,880
Exempt from apportionment, unexpired accounts	**532**	1,382
Unapportioned, unexpired accounts	**2,570**	–
Unexpired unobligated balance, end of year	**38,173**	41,262
Expired unobligated balance, end of year	**515**	365
Unobligated balance, end of year (total)	**38,688**	41,627
Total Status of Budgetary Resources	**$ 979,215**	$ 1,043,944
Change in Obligated Balance		
Unpaid obligations:		
Unpaid obligations brought forward, October 1	**$ 328,965**	$ 327,652
New obligations and upward adjustments (total) (Note 12)	**940,529**	1,002,317
Outlays (gross)	**(925,006)**	(992,146)
Recoveries of prior-year unpaid obligations	**(14,503)**	(8,858)
Unpaid obligations, end of year	**329,983**	328,965
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1	**$ (2,355)**	$ (1,814)
Change in uncollected payments, Federal sources	**(484)**	(541)
Uncollected payments, Federal sources, end of year	**$ (2,839)**	$ (2,355)
Memorandum entries:		
Obligated balances, start of year	**$ 326,610**	$ 325,838
Obligated balances, end of year	**$ 327,144**	$ 326,610
Budget Authority and Outlays, Net		
Budget Authority, gross	**$ 922,755**	$ 1,006,930
Actual offsetting collections	**(5,472)**	(4,409)
Change in uncollected payments, Federal sources	**(484)**	(541)
Recoveries of prior year paid obligations	**330**	156
Budget Authority, Net	**$ 917,129**	$ 1,002,136
Outlays, gross	**$ 925,006**	$ 992,146
Actual offsetting collections	**(5,472)**	(4,409)
Outlays, net	**919,534**	987,737
Distributed offsetting receipts	**(789,648)**	(869,094)
Agency Outlays, Net	**$ 129,886**	$ 118,643

The accompanying notes to the financial statements are an integral part of these statements.

Notes to the Financial Statements

(All tables are presented in thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The NRC is an independent regulatory agency of the U.S. Federal Government that the Congress created to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the *Energy Reorganization Act of 1974*, as amended, along with the *Atomic Energy Act of 1954*, as amended, which provide the foundation for regulating the Nation's civilian use of nuclear materials.

The NRC operates through the execution of its congressionally approved appropriations for Salaries and Expenses (which includes funds derived from the NWF) and the OIG.

B. Basis of Presentation

These financial statements for FY 2017 and FY 2016 (prior-year) are presented on a comparative basis. They report the financial position and results of operations of the NRC as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. These financial statements were prepared from the books and records of the NRC in conformance with GAAP for Federal entities of the United States and the form and content for entity financial statements specified by in OMB Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting the accounting standards of the U.S. Government. These statements are different from the financial reports prepared by the NRC in compliance with OMB directives, which are used to monitor and control the NRC's use of budgetary resources.

The NRC has not presented a Statement of Custodial Activity because the amounts involved are immaterial and incidental to the agency's operations and mission.

Presentation of the budget accounts on the Combining Statements of Budgetary Resources shows columns for the no-year Salaries and Expenses appropriation, which includes funding for the Office of the Commission; no-year and 2-year funds aggregated for the OIG; and the Nuclear Facility Fees, which reflects the Distributed Offsetting Receipts.

C. Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

Congress passed the *Consolidated Appropriations Act, 2017* that funded the NRC's budget at a level of $905 million for FY 2017. Not more than $7.5 million of the appropriation may be made

available for the costs of the Office of the Commission until September 30, 2018. Additionally, Congress enacted a 2-year appropriation of $12.1 million for the OIG, which is available for obligation by the NRC through September 30, 2018.

In FY 2016, Congress passed the *Consolidated Appropriations Act, 2016* that funded the NRC's budget at a level of $990 million for FY 2016. Not more than $7.5 million of the appropriation be made available for the costs of the Office of the Commission until September 30, 2017. Additionally, Congress enacted a 2-year appropriation of $12.1 million for the OIG, which was available for obligation by the NRC through September 30, 2017.

D. Basis of Accounting

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is also used to record the obligation of funds prior to the accrual-based transaction. The SBR presents budgetary resources available to the NRC and changes in obligations during the year.

E. Revenues and Other Financing Sources

The NRC is required to offset its appropriations by revenue received during the FY from the assessment of fees. The NRC assesses two types of fees to recover its appropriation:

1. Fees assessed to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees under 10 CFR Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the *Atomic Energy Act of 1954*, as Amended," for licensing, inspection, and other services under the authority of the *Independent Offices Appropriation Act of 1952*.

2. Annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses."

Licensing revenues are recognized on a straight-line basis over the licensing period. The annual licensing period for reactor and materials fees begins October 1 and ends September 30. Annual fees for reactors are invoiced in four quarterly installments, before the end of each quarter. The NRC invoices licensees for materials annual fees in the month the license was originally issued. Inspection fees are recorded as revenues when the services are performed.

For accounting purposes, appropriations are recognized as a financing source (appropriations used) at the time goods and services are received. Periodically during the FY, appropriations recognized are reduced by the amount of assessed fees collected during the FY to the extent of new budget authority for the year. Collections that exceed 90 percent of the NRC's appropriation, excluding amounts appropriated for Waste Incidental to Reprocessing, generic homeland security, and IG services for the DNFSB, are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations as reflected by the depreciation and amortization expense.

F. Fund Balance with Treasury

The Treasury processes the NRC's cash receipts and disbursements. The Fund Balance with Treasury is primarily appropriated funds and license fee collections that are available to pay current liabilities and to finance authorized purchase commitments. The Fund Balance with Treasury represents the NRC's right to draw on the Treasury for allowable expenditures.

G. Accounts Receivable

Accounts receivable consist of amounts that other Federal agencies and the public owe to the NRC. Amounts due from the public are presented net of an allowance for uncollectible accounts. The allowance is determined based on the age of the receivable and allowance rates established from historical experience. Receivables from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts for Federal agencies.

H. Non-Entity Assets

Non-entity assets consist of miscellaneous penalties and interest due from the public that when collected, must be transferred to the Treasury.

I. Property and Equipment

Property and equipment consist primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. The costs of internal use software include the full cost of salaries and benefits for agency personnel involved in software development. The NRC has no real property. The land and buildings in which the NRC operates are leased through the GSA, for rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50,000 or more per unit and a useful life of 2 years or more is capitalized at cost and depreciated using the straight-line method over the useful life of the asset. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

J. Accounts Payable

The NRC uses an estimation methodology to calculate the accounts payable balance, which represents costs for billed and unbilled goods and services received before to year-end that are unpaid. The NRC calculates the accounts payable amount using an average based on the historical trend of validated accruals. The estimation methodology is validated quarterly.

K. Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of the end of the FY. These liabilities are not funded from current or prior-year appropriation and assessments, but instead they are funded from future appropriations and assessments.

Liabilities represent the amount of monies or other resources that are likely to be paid by the NRC as the result of a transaction or event that has already occurred. The NRC cannot pay Liabilities without an appropriation. Liabilities for which an appropriation has not been enacted

are classified as "Liabilities Not Covered by Budgetary Resources" and fall into the following three categories:

1. **Intragovernmental.** The NRC records a liability to the U.S. Department of Labor (DOL) for *Federal Employees Compensation Act* (FECA) benefits paid by the DOL on behalf of the NRC.

2. **Federal Employee Benefits.** Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The DOL generates the future workers' compensation estimate from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

3. **Other.** This category includes the amount of accrued annual leave earned by the NRC employees but not yet taken and contingent liabilities that have the probable likelihood of an adverse outcome.

L. Contingencies

Contingent liabilities are those for which the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. Accounting treatment of the contingency depends on if the likely outcome is considered probable, reasonably possible, or remote.

A contingency is considered probable when the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. This type of contingency is recorded in the financial statements as a contingent liability (included in Other Liabilities) and as an expense. It should be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable.

A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. This type of contingency is disclosed in the notes to the financial statements (Note 17) if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

A contingency is considered remote when the chance of the future event or events occurring is slight. This type of contingency is not recognized as a liability and as an expense in the financial statements, nor is it disclosed in the notes when the chance of the future event or events occurring is remote.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent that current or prior-year funding is not available to cover annual leave

earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. Retirement Plans

The NRC employees belong to either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS).

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. The portion of the current and estimated future outlays for FERS and CSRS not paid by the NRC is included in NRC's financial statements as an imputed financing source in the Statement of Changes in Net Position and as program costs on the Statement of Net Cost.

The NRC employees make mandatory contributions to their retirement plans through payroll deductions as required by law. For employees belonging to FERS and receiving an appointment before January 1, 2013, the NRC withheld 0.8 percent of base pay earnings and made an employer contribution of 13.7 percent in 2017 and 13.7 percent in 2016. In accordance with *Public Law 112-96, Section 5001 of the Middle Class Tax Relief and Job Creation Act of 2012*, employees hired after January 1, 2013, as Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) must pay 3.1 percent of their salary to retirement contributions, with 11.9 percent in 2017 and 11.9 percent in 2016 for employer matching contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, the NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2017 and FY 2016.

The Thrift Savings Plan is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, but it is subject to the maximum contribution of $18,000 in 2017 and 2016. For employees participating in FERS, the NRC automatically contributes 1 percent of base pay to the employee's account and matches contributions up to an additional 4 percent. For employees participating in CSRS, the NRC does not match the contribution. The sum of the employees' and the NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

O. Leases

The NRC has two types of leases: capital leases and operating leases (Note 7):

Capital leases: Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. Capital leases are reported in the Balance Sheet as an asset under Property and Equipment and as a liability under Other Liabilities. If at its inception, a lease meets one or more of the following four criteria, the lessee should classify the lease as a capital lease:

1. The lease transfers the ownership of the property to the lessee by the end of the lease term.

2. The lease contains an option to purchase the leased property at a bargain price.

3. The lease term is equal or greater than 75 percent of the estimated economic life of the leased property.

4. The present value of rental or other minimum lease payments, excluding that portion of the payments representing executor cost, equals or exceeds 90 percent of the fair value of the leased property.

The NRC's capital leases are for personal property consisting of reproduction equipment that is installed at the NRC Headquarters.

Operating leases: The FASAB defines an operating lease as a lease in which the Federal entity does not assume the risks of ownership of the property, plant, and equipment (PP&E). It is an agreement conveying the right to use property for a limited time in exchange for periodic rental payments.

Operating leases at the NRC consist of real property leases with the GSA. The leases are for the NRC's Headquarters, regional offices, and Technical Training Center (TTC). The GSA charges the NRC lease rates that approximate commercial rates for comparable space.

P. Pricing Policy

The NRC provides nuclear reactor and materials licensing and inspection services to the public and other Government entities. In accordance with OMB Circular A-25, "Transmittal Memorandum #1, User Charges," and the *Independent Offices Appropriation Act of 1952*, the NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services.

The NRC's policy is to recover the full cost of goods and services provided to other Government entities where the services performed are not part of the agency's statutory mission and the NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

Q. Net Position

The NRC's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent (1) appropriated spending authority that is unobligated and has not been withdrawn by the Treasury, and (2) unliquidated obligations and expenditures not yet disbursed. Cumulative results of operations represent the excess of financing sources over expenses since inception.

R. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

S. Statement of Net Cost

The programs as presented on the Statement of Net Cost are based on the annual performance budget and are described as follows:

The Nuclear Reactor Safety program encompasses all the NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects public health and safety, and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety program contains the following activities: operating reactors and new reactors.

The Nuclear Materials and Waste Safety program encompasses all the NRC efforts to protect the public health and safety and the environment and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety program contains the following activities: fuel facilities, nuclear materials users, decommissioning and low-level waste, spent fuel storage and transportation, and a high-level waste repository.

For intragovernmental gross costs and revenue, the buyers and sellers are Federal entities. For earned revenues from the public, the buyers of the goods or services are non-Federal entities.

Note 2 – Fund Balance with Treasury

As of September 30,	2017	2016
Fund Balances		
Appropriated funds	**$ 365,226**	$ 366,751
Nuclear Waste Fund	**606**	1,486
Other fund types	**–**	–
Total	**$ 365,832**	$ 368,237
Status of Fund Balance with Treasury		
Unobligated balance		
Available - Appropriated funds	**$ 35,603**	$ 41,262
Unavailable		
Unapportioned, unexpired accounts	**2,570**	–
Expired accounts	**515**	365
Obligated balance not yet disbursed	**327,144**	326,610
Total	**$ 365,832**	$ 368,237

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, to including NWF activity. The NWF unobligated balance was $0.5 million and $1.4 million as of September 30, 2017, and 2016, respectively.

Other fund types in the Fund Balance with Treasury represents license fee collections used to offset the NRC current-year budget authority, miscellaneous collections, and adjustments that will offset revenue in the following FY.

Note 3 – Accounts Receivable

As of September 30,	2017	2016
Intragovernmental		
Fee receivables and reimbursements	**$ 7,152**	$ 7,754
Receivables with the Public		
Materials and facilities fees-billed	**$ 10,759**	$ 9,101
Materials and facilities fees-unbilled	**72,494**	73,077
Other	**475**	118
Total Receivables with the Public	**83,728**	82,296
Less: Allowance for uncollectible accounts	**(3,854)**	(3,913)
Total Receivables with the Public, Net	**$ 79,874**	$ 78,383
Total Accounts Receivable	**$ 90,880**	$ 90,050
Less: Allowance for uncollectible accounts	**(3,854)**	(3,913)
Total Accounts Receivable, Net	**$ 87,026**	$ 86,137

Note 4 – Property and Equipment, Net

As of September 30,				2017	2016
Fixed Assets Class	**Service Years**	**Acquisition Value**	**Accumulated Depreciation and Amortization**	**Net Book Value**	**Net Book Value**
Equipment	5-8	$ 8,829	$ (7,648)	**$ 1,181**	$ 686
Leased equipment	5-8	1,318	(916)	**402**	699
IT software	5	62,965	(56,456)	**6,509**	6,206
IT software under development	–	14,911	–	**14,911**	12,901
Leasehold improvements	20	93,589	(44,343)	**49,246**	54,934
Leasehold improvements in progress	–	7,661	–	**7,661**	5,367
Total		$ 189,273	$ (109,363)	**$ 79,910**	$ 80,793

In FY 2017, the NRC identified two leasehold improvement projects expensed from FY 2014 through FY 2016 for heating, ventilation, and air conditioning upgrades in the One White Flint North building that should have been capitalized. The NRC recorded prior period adjustments in FY 2017 of $6.8 million to capitalize the leasehold improvement project costs and $0.4 million in related depreciation costs for FY 2014 through FY 2016.

In accordance with SFFAS 44, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use," the NRC repairs or replaces capital assets as required and does not recognize impairment losses.

Note 5 – Other Liabilities

As of September 30,	2017	2016
Intragovernmental		
Liability to the U.S. Treasury General Fund for misc. receipts	**$ 25**	$ 36
Liability for advances from other agencies	**4**	20
Accrued workers' compensation	**1,174**	1,361
Accrued unemployment compensation	**27**	29
Employee benefit contributions	**4,356**	4,526
Total Intragovernmental Other Liabilities	**$ 5,586**	$ 5,972
Other Liabilities		
Accrued annual leave	**$ 41,989**	$ 43,740
Accrued salaries and benefits	**15,886**	19,585
Contract holdbacks, advances, capital lease liability, and other	**5,119**	6,383
Contingent liabilities	**–**	–
Grants payable	**9,577**	15,778
Total Other Liabilities	**$ 72,571**	$ 85,486
Total Intragovernmental and Other Liabilities	**$ 78,157**	$ 91,458

Other liabilities are current except for capital lease liability (Note 7).

Note 6 – Liabilities Not Covered by Budgetary Resources

As of September 30,	2017	2016
Intragovernmental		
FECA paid by DOL	**$ 1,174**	$ 1,361
Accrued unemployment compensation	**27**	29
Federal Employee Benefits		
Future FECA	**5,370**	5,608
Other		
Accrued annual leave	**41,989**	43,740
Contingent liabilities	**–**	–
Total Liabilities Not Covered by Budgetary Resources	**48,560**	50,738
Total Liabilities Covered by Budgetary Resources	**65,399**	77,261
Total Liabilities	**$ 113,959**	$ 127,999

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2017, and 2016. These liabilities are not funded from current or prior-year appropriations and assessments, but rather they should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

The projected annual benefit payments for FECA are discounted to present value. For FY 2017, projected annual payments were discounted to present value based on the OMB's interest rate assumptions, which were interpolated to reflect the average duration in years for income payments and medical payments. The interest rate assumptions used for FY 2017

discounting were 2.683 percent in year 1 and year 2 for wage benefits, and 2.218 percent in year 1 and year 2 for medical benefits.

Note 7 – Leases

As of September 30,	2017	2016
Assets Under Capital Leases:		
Copiers and booklet maker	$ **1,318**	$ 1,318
Accumulated depreciation	**(916)**	(619)
Net Assets Under Capital Leases	**$ 402**	$ 699

Future Lease Payments Due:

As of September 30,			2017	2016
Fiscal Year	**Capital**	**Operating**		
2017	$ –	$ –	**$ –**	$ 39,351
2018	25	36,425	**36,450**	35,802
2019	298	25,216	**25,514**	24,363
2020	75	31,819	**31,894**	30,884
2021 and thereafter	–	308,264	**308,264**	259,757
Total Lease Liability	398	401,724	**402,122**	390,157
Subtract: Imputed Interest	(5)	–	**(5)**	(14)
Total Future Lease Payments	$ 393	$ 401,724	**$ 402,117**	$ 390,143

The Capital Lease Liability of $398 thousand for reproduction equipment is included in Other Liabilities (Note 5). For Future Lease Payments, the NRC calculates the Capital Lease Liability and subtracts the imputed interest to arrive at the Total Future Lease Payments. The reproduction equipment is generally depreciated over 5 years using the straight-line method with no salvage value.

The land and buildings in which the NRC operates are leased through the GSA. The NRC Headquarters complex consists of three office buildings and a warehouse located in Rockville, MD, with one of the headquarters office buildings jointly leased with the U.S. Food and Drug Administration (FDA). The NRC has four regional offices that are located in King of Prussia, PA, Atlanta, GA, Lisle, IL, and Arlington, TX. In addition, the NRC operates and maintains the TTC located in Chattanooga, TN.

In Three White Flint North (3WFN), the NRC occupies 138,035 useable square feet (42.8 percent of the building), and the NRC is no longer the primary tenant. The FDA occupies the other floors. Future plans to reduce the NRC footprint call for the NRC to release four floors of the 3WFN office building in late calendar year 2019. The lease bill for 3WFN will be approximately $4.0 million less per year. The NRC will not recognize savings for these floors until another Federal agency leases the space.

The NRC leases for land and buildings do not have renewal options or contingent rental restrictions. The joint lease for the 3WFN office building with the FDA and the leases for the four regional office buildings have escalation clauses. The leases for the two remaining headquarters office buildings, the warehouse, and the TTC do not have escalation clauses.

Note 8 – Cumulative Results of Operations

As of September 30,	2017	2016
Liabilities not covered by budgetary resources (Note 6)	**$ (48,560)**	$ (50,738)
Investment in property and equipment, net (Note 4)	**79,910**	80,793
Contributions from foreign cooperative research agreements	**5,878**	5,581
Nuclear Waste Fund	**606**	1,486
Office of the Commission (financed by Fees)	**–**	1,198
Accounts receivable - fees	**86,503**	85,557
Other	**444**	48
Cumulative Results of Operations	**$ 124,781**	$ 123,925

The FY 2017 beginning balance for Cumulative Results of Operations was adjusted upward by $6.4 million for capitalized leasehold improvement project costs previously expensed in FY 2014 to FY 2016. The FY 2016 beginning balance for Cumulative Results of Operations was adjusted upward by $3.2 million for prior year license fee transfers recorded to the Office of the Commission 2-year accounts that were originally classified as appropriated capital.

Note 9 – Statement of Net Cost

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety		
Intragovernmental gross costs	**$ 207,662**	$ 227,113
Less: Intragovernmental earned revenue	**(48,809)**	(53,919)
Intragovernmental net costs	**158,853**	173,194
Gross costs with the public	**529,132**	568,077
Less: Earned revenues from the public	**(661,277)**	(715,928)
Net costs with the public	**(132,145)**	(147,851)
Total Net Cost of Nuclear Reactor Safety	**$ 26,708**	$ 25,343
Nuclear Materials and Waste Safety		
Intragovernmental gross costs	**$ 54,366**	$ 56,548
Less: Intragovernmental earned revenue	**(5,782)**	(6,505)
Intragovernmental net costs	**48,584**	50,043
Gross costs with the public	**149,460**	163,617
Less: Earned revenues from the public	**(80,386)**	(87,662)
Net costs with the public	**69,074**	75,955
Total Net Cost of Nuclear Materials and Waste Safety	**$ 117,658**	$ 125,998

Nuclear Reactor Safety and Nuclear Materials and Waste Safety represent the NRC's two major programs, as identified in the NRC Annual Performance Plan.

Note 10 – Exchange Revenues

For the fiscal years ended September 30,	2017	2016
Fees for licensing, inspection, and other services	**$ 790,595**	$ 858,851
Revenue from reimbursable work	**5,659**	5,163
Total Exchange Revenues	**$ 796,254**	$ 864,014

Earned revenues or exchange revenues arise when an entity provides goods and services to the public or another Government entity for a price. The NRC's revenues are primarily for services provided for inspections, fees for licensing, and reimbursable work.

Note 11 – Financing Sources Other Than Exchange Revenue

For the fiscal years ended September 30,	2017	2016
Appropriations Used		
Collections are used to reduce the fiscal year's appropriations:		
Funds consumed	**$ 908,615**	$ 987,845
Less: Collection of fees assessed	**(789,648)**	(869,089)
Less: Nuclear Waste Funding Expense	**(880)**	(1,983)
Less: Office of the Commission (financed by Fees)	**–**	(1,198)
Total Appropriations Used	**$ 118,087**	$ 115,575

Funds consumed include $36.5 million and $25.9 million through September 30, 2017, and 2016, respectively, of available funds from prior years.

For the fiscal years ended September 30,	2017	2016
Non-Exchange Revenue		
Civil penalties	**$ 182**	$ 109
Miscellaneous receipts	**69**	165
Non-Exchange Revenue	**251**	274
Contra-Revenue	**(251)**	(274)
Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund	**$ –**	$ –

For the fiscal years ended September 30,	2017	2016
Imputed Financing		
Civil Service Retirement System	**$ 4,345**	$ 5,526
Federal Employees Retirement System	**643**	2,295
Federal Employee Health Benefit	**15,652**	19,500
Federal Employee Group Life Insurance	**82**	86
Judgments/Awards	**–**	–
Total Imputed Financing	**$ 20,722**	$ 27,407

Note 12 – Total Obligations Incurred

For the fiscal years ended September 30,	2017	2016
Direct Obligations		
Category A	**$ 934,421**	$ 994,840
Exempt from Apportionment	**881**	1,772
Total Direct Obligations	**935,302**	996,612
Reimbursable Obligations	**5,225**	5,705
Total Obligations Incurred	**$ 940,527**	$ 1,002,317

Obligations exempt from apportionment represent funds derived from the NWF. Category A obligations consist of the NRC appropriations only.

Note 13 – Undelivered Orders at the End of the Period

For the fiscal years ended September 30,	2017	2016
Undelivered Orders - Unpaid		
Salaries and Expenses	**$ 267,698**	$ 255,560
Inspector General	**846**	1,019
Nuclear Waste Fund	**–**	105
Total Undelivered Orders - Unpaid	**$ 268,544**	$ 256,684
Undelivered Orders - Paid		
Salaries and Expenses	**$ 12,584**	$ 13,756
Inspector General	**168**	413
Nuclear Waste Fund	**–**	–
Total Undelivered Orders - Paid	**12,752**	14,169
Total Undelivered Orders	**$ 281,296**	$ 270,853

Undelivered Orders are obligations where the amount of goods or services ordered have not been actually or constructively received.

Note 14 – Nuclear Waste Fund

For FY 2017 and FY 2016, the NRC's budget did not include funds from the NWF. The funding provided to the NRC before FY 2014 and carried forward to subsequent years was for the purpose of performing activities associated with the DOE's application for a high-level waste repository at Yucca Mountain, NV.

The SFFAS 43 "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds," lists three defining criteria for funds from dedicated collections. Generally, funds from dedicated collections must have at least one source of funds external to the Federal Government, and the statute provides explicit authority to retain current, unused revenues for future use. SFFAS 43 also includes a requirement to account for and report on the receipt and use of the financing sources as distinguished from general revenues.

In 1982, Congress passed the *Nuclear Waste Policy Act of 1982* (Public Law 97-425) establishing the NWF to be administered by the DOE (42 U.S.C. 10222). For the NRC, the NWF transfer is a source of financing from other than non-Federal sources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the Treasury has no separate fund symbol for the NWF under the NRC's agency location code. The receipt and expenditure of NWF money is reported to the Treasury under the NRC's primary Salaries and Expenses fund (X0200).

As a result, the NWF is not a fund from dedicated collections from the NRC's perspective. However, to provide additional information to the users of these financial statements, the table below presents enhanced disclosure of the fund.

For the fiscal years ended September 30,	2017	2016
Appropriations Received	$ -	$ –
Expended Appropriations	$ 880	$ 1,983
Obligations Incurred	$ 881	$ 1,772
Unobligated Balances (includes recoveries of prior-year obligations)	$ 532	$ 1,382

Note 15 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

SFFAS 7, "Accounting for Revenue and Other Financing Sources" and OMB Circular A-136 require the NRC to reconcile the budgetary resources reported on the SBR to the actual budgetary resources presented in the President's Budget and explain any material differences.

The NRC does not have any material differences between the budgetary resources reported on the SBR for FY 2016 and the FY 2016 actuals in the proposed President's Budget for FY 2018. The reconciliation was based on actual numbers for FY 2016 because the Budget of the United States (also known as the President's Budget) was not published at the time that these financial statements were issued.

The FY 2017 actual budgetary resources numbers will be available in the FY 2019 President's Budget which is expected to be published in 2018, and will be available on the OMB Web site http://www.whitehouse.gov/omb and through the U.S. Government Publishing Office.

Note 16 – Reconciliation of Net Cost of Operations to Budgetary Resources

For the fiscal years ended September 30,	2017	2016
Budgetary Resources Obligated		
Obligations incurred (Note 12)	$ 940,527	$ 1,002,317
Less: Spending authority from offsetting coll. and recoveries	(20,459)	(13,808)
Less: Distributed offsetting receipts, current year	(789,648)	(869,094)
Less: Distributed offsetting receipts, prior year	–	–
Net Obligations	130,420	119,415
Other Resources		
Imputed financing from costs absorbed by others	20,722	27,407
Non-Exchange Revenue	251	274
Funds returned to U.S. Treasury General Fund	(251)	(274)
Net Other Resources Used to Finance Activities	20,722	27,407
Total Resources Used to Finance Activities	151,142	146,822
Resources to Finance Items Not Part of Net Cost of Operations	(23,375)	(17,170)
Total Resources Used to Finance Net Cost of Operations	127,767	129,652
Components of the Net Cost of Operations that will not require or generate resources in the current period	16,599	21,689
Net Cost of Operations	$ 144,366	$ 151,341

Distributed offsetting receipts of $789.6 million were collected and transferred to offset the FY 2017 NRC appropriations through September 30, 2017. Upon transfer, the Treasury issued a negative warrant for the amount of the transfer to reduce the NRC appropriations.

Note 17 – Contingencies

The NRC is subject to potential liabilities in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the NRC's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or net costs of the NRC.

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2017 the NRC is not involved in any cases with a possible likelihood of an adverse outcome. As of September 30, 2016, the NRC was one of three Government agencies that were involved in a case in which the likelihood of loss was reasonably possible. The NRC's portion of the loss could have been up to $21.3 million and any loss would have been paid out of the judgement fund. This case has been settled.

Required Supplementary Information

Combining Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal year ended September 30, 2017	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 38,626	$ 3,001	$ –	**$ 41,627**
Recoveries of prior-year unpaid obligations	14,283	220	–	**14,503**
Recoveries of prior-year paid obligations	330	–	–	**330**
Unobligated balance from prior-year budget authority, net	53,239	3,221	–	**56,460**
Appropriations	905,000	12,129	–	**917,129**
Spending authority from offsetting collections	5,626	–	–	**5,626**
Total Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 12)	$ 928,346	$ 12,181	$ –	**$ 940,527**
Unobligated balance, end of year				
Apportioned, unexpired accounts	32,348	2,723	–	**35,071**
Exempt from apportionment, unexpired accounts	532	–	–	**532**
Unapportioned, unexpired accounts	2,570	–	–	**2,570**
Unexpired unobligated balance, end of year	35,450	2,723	–	**38,173**
Expired unobligated balance, end of year	69	446	–	**515**
Unobligated balance, end of year	35,519	3,169	–	**38,688**
Total Status of Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$ 327,578	$ 1,387	$ –	**$ 328,965**
New obligations and upward adjustments (Note 12)	928,346	12,181	–	**940,527**
Outlays, gross	(913,103)	(11,903)	–	**(925,006)**
Recoveries of prior-year unpaid obligations	(14,282)	(221)	–	**(14,503)**
Unpaid obligations, end of year	$ 328,539	$ 1,444	$ –	**$ 329,983**
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (2,355)	$ –	$ –	**$ (2,355)**
Change in uncollected payments, Federal sources	(484)	–	–	**(484)**
Uncollected payments, Federal sources, end of year	$ (2,839)	$ –	$ –	**$ (2,839)**
Memorandum entries:				
Obligated balances, start of year	$ 325,223	$ 1,387	$ –	**$ 326,610**
Obligated balances, end of year	$ 325,699	$ 1,445	$ –	**$ 327,144**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 910,626	$ 12,129	$ –	**$ 922,755**
Actual offsetting collections	(5,472)	–	–	**(5,472)**
Change in uncollected customer payments, from Federal sources	(484)	–	–	**(484)**
Recoveries of prior year paid obligations	330	–	–	**330**
Budget Authority, Net	$ 905,000	$ 12,129	$ –	**$ 917,129**
Outlays, gross	$ 913,103	$ 11,903	$ –	**$ 925,006**
Actual offsetting collections	(5,472)	–	–	**(5,472)**
Outlays, net	907,631	11,903	–	**919,534**
Distributed offsetting receipts	–	–	(789,648)	**(789,648)**
Agency Outlays, Net	$ 907,631	$ 11,903	$(789,648)	**$ 129,886**

Combining Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal year ended September 30, 2016	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources				
Unobligated balances, brought forward, October 1	$ 25,722	$ 2,278	$ –	**$ 28,000**
Recoveries of prior-year unpaid obligations	8,138	720	–	**8,858**
Recoveries of prior-year paid obligations	156	–	–	**156**
Unobligated balance from prior-year budget authority, net	34,016	2,998	–	**37,014**
Appropriations	990,000	12,136	–	**1,002,136**
Spending authority from offsetting collections	4,794	–	–	**4,794**
Total Budgetary Resources	$1,028,810	$ 15,134	$ –	**$1,043,944**
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 12)	$ 990,184	$ 12,133	$ –	**$1,002,317**
Unobligated balance, end of year				
Apportioned, unexpired accounts	37,181	2,699	–	**39,880**
Exempt from apportionment, unexpired accounts	1,382	–	–	**1,382**
Unapportioned, unexpired accounts	–	–	–	**–**
Unexpired unobligated balance, end of year	38,563	2,699	–	**41,262**
Expired unobligated balance, end of year	63	302	–	**365**
Unobligated balance, end of year	38,626	3,001	–	**41,627**
Total Status of Budgetary Resources	$1,028,810	$ 15,134	$ –	**$1,043,944**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$ 325,804	$ 1,848	$ –	**$ 327,652**
New obligations and upward adjustments (Note 12)	990,184	12,133	–	**1,002,317**
Outlays, gross	(980,271)	(11,875)	–	**(992,146)**
Recoveries of prior-year unpaid obligations	(8,138)	(720)	–	**(8,858)**
Unpaid obligations, end of year	$ 327,579	$ 1,386	$ –	**$ 328,965**
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1	$ (1,814)	$ –	$ –	**$ (1,814)**
Change in uncollected payments, Federal sources	(541)	–	–	**(541)**
Uncollected payments, Federal sources, end of year	$ (2,355)	$ –	$ –	**$ (2,355)**
Memorandum entries:				
Obligated balances, start of year	$ 323,990	$ 1,848	$ –	**$ 325,838**
Obligated balances, end of year	$ 325,224	$ 1,386	$ –	**$ 326,610**
Budget Authority and Outlays, Net				
Budget Authority, gross	$ 994,794	$ 12,136	$ –	**$ 1,006,930**
Actual offsetting collections	(4,409)	–	–	**(4,409)**
Change in uncollected customer payments, from Federal sources	(541)	–	–	**(541)**
Recoveries of prior year paid obligations	156	–	–	**156**
Budget Authority, Net	$ 990,000	$ 12,136	$ –	**$ 1,002,136**
Outlays, gross	$ 980,271	$ 11,875	$ –	**$ 992,146**
Actual offsetting collections	(4,409)	–	–	**(4,409)**
Outlays, net	975,862	11,875	–	**987,737**
Distributed offsetting receipts	–	–	(869,094)	**(869,094)**
Agency Outlays, Net	$ 975,862	$ 11,875	$(869,094)	**$ 118,643**

Deferred Maintenance and Repairs

Deferred Maintenance and Repairs for General Property, Plant, and Equipment (G-PP&E)

Information on Deferred maintenance and repairs (DM&R) is required under SFFAS 42, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32."

SFFAS 42 defines DM&R as "maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period." Maintenance and repairs (M&R) are defined as activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. M&R, as distinguished from capital improvements, excludes activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

DM&R should include funded and unfunded M&R activities that have been delayed to a future period. DM&R on inactive or excess G-PP&E should be included to the extent that it is required to maintain those items in acceptable condition.

The NRC evaluated DM&R activities for leased facilities, the multiple components of the agency information technology (IT) infrastructure, and individual capital asset purchases with a cost equal to or greater than $50,000. The NRC did not include noncapitalized PP&E with a cost of less than $50,000, which are deemed immaterial.

Deferred Maintenance and Repairs for the NRC Facilities, Other Structures, and Capital Equipment

For the NRC leased facilities and capital equipment purchases, the NRC typically does not have any DM&R. The NRC had no DM&R for facilities, other structures, and capital equipment as of September 30, 2017, and 2016.

Defining and Implementing Maintenance and Repair Policies in Practice

For the NRC Headquarters facilities, the agency uses the GSA guidelines for maintenance activities along with industry best practices to determine the preventive maintenance activities to perform and the schedule for those activities. For the building structures and systems, the maintenance contractor performs all required periodic maintenance to keep the systems and buildings in a good state of repair. The contractor is held to a 98 percent scheduled completion rate, with all the preventive maintenance completed within a reasonable time. When equipment reaches the end of its useful life, it is generally replaced with like-kind or upgraded equipment. For any type of an emergent failure to facilities, the NRC would request additional funding, as needed, for repairs or replacement to structures and equipment.

For the regional offices, the building management (lessor) is responsible for performing all required periodic maintenance to keep the systems and buildings in a good state of repair. Generally, the regional leases contain the fixed assets, including equipment purchased to support the operations of the agency's leased space, such as diesel generators and chillers for the Incident Response Center, the local area network, and power cooling. Equipment requiring repair results in a service repair call. For those instances where equipment is purchased to

support the NRC regional operations, maintenance contracts are put in place to provide periodic service and maintenance on the equipment. When equipment reaches the end of its useful life, it is generally replaced with like-kind or with upgraded equipment. For any type of an emergent failure, the NRC would request additional funding, as needed, for repairs or replacement of equipment.

The TTC facility and associated systems are leased and maintained by the lessor. This includes any emergent repairs that may occur, as well as any scheduled maintenance. Assets within the TTC are predominantly maintained by facilities personnel or, in some cases, such as for simulator systems, contractor personnel perform all required emergent and periodic maintenance to keep the simulator systems in a good state of repair. When equipment reaches the end of its useful life, it is replaced with like-kind or upgraded equipment.

Ranking and Prioritization of Maintenance and Repair Activities

Personnel safety is a top priority at the NRC leased facilities. Maintenance activity, such as for fire alarms and emergency exits, is given top priority. If a preventative maintenance activity must be deferred, which is typically only for 2 to 4 weeks, the impact to personnel safety and building functionality is considered during the review. Other M&R activities are executed as required so that there is no disruption to the NRC operations and the TTC training schedules.

Factors Considered in Determining Acceptable Condition

The NRC's Facilities Management Branch at the headquarters facilities performs the daily inspections and maintenance of the buildings and major systems. The NRC internally reviews planned maintenance activity records and historical logs of M&R to monitor condition information for equipment. Based on the information gathered, the NRC will determine whether planning for replacement or upgrade is needed. Additionally, the GSA conducts onsite inspections every 3 to 5 years at the headquarters facilities to assess the overall condition of the buildings and to determine when major systems and components need to be scheduled for replacement. For the TTC and regional offices, the NRC has a Facilities Management staff person onsite to work with the GSA to manage the buildings with support from the lessors. As a result, the GSA performs more frequent onsite inspections of the facilities. The NRC works in close coordination with the GSA to ensure that M&R activities are performed on a timely basis for all NRC-occupied facilities.

Deferred Maintenance and Repairs for Information Technology Infrastructure and Systems

DM&R for IT infrastructure and systems was $0.5 million as of September 30, 2017. The DM&R includes the video teleconference and Voicemail systems. The voicemail for Regions 2, 3, and 4 is close to completion, with Regions 1 and the TTC still awaiting upgrades. The video teleconference will require incremental DM&R as the agency encounters units that have passed the obsolete state. The NRC had $3.3 million in DM&R for IT infrastructure and systems as of September 30, 2016.

The NRC IT infrastructure is a network of multiple equipment, software, and service components, taken as a whole, which provides the critical communication network that allows the NRC to accomplish its mission. The NRC IT infrastructure encompasses the following:

- End-user systems and support and end-user hardware includes desktop, laptop, and handheld devices; peripherals (local printers, shared printers); software (personal computer operating systems, office automation suites, messaging, and groupware); and hardware and software for help desks. Also included are network operations command centers, wire closets, and cable management. For regional offices, this includes regional end-user support similar to that provided by the Customer Support Center at the NRC Headquarters, which includes contract support and Federal full-time equivalent (FTE).

- Telecommunications services includes data networks and telecommunications (including wireless, multimedia, and local and long-distance telephone); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. For regional offices, this includes local telecommunications, which includes contract support and Federal FTE.

- Production operations include mainframes and servers (including Web hosting, but not Web content development and management); hardware and software operations; licenses; maintenance; and backup, continuity of operations, and disaster recovery. Also included resources related to carrying out Homeland Security Presidential Directive-12, which requires all Federal Executive departments and agencies to implement a Government-wide standard for secure and reliable forms of identification for access to Federal facilities and information systems.

The NRC relies on the asset project and program managers to execute the maintenance budget and to establish and modify the M&R schedule as needed. Ranking factors that may impact the M&R schedule include personnel safety, age of the asset, scheduled replacement date, budget constraints, and unforeseen or unexpected events.

Additionally, for IT systems, whether computer-off-the-shelf or internally developed software, the NRC relies on the project and program managers to establish an M&R budget and schedule. Minor repairs, enhancements, and upgrades are completed internally through the regular M&R operations process. For major upgrades and replacement systems, the project manager must submit a request to perform the work to the appropriate IT governance boards for their approval.

Defining and Implementing Maintenance and Repair Policies in Practice

All of the NRC IT infrastructure M&R activities are performed under various contracts. For example, the main IT infrastructure and support services (ITISS) contract includes leasing of servers, computers, printers, and software and provides provisions for periodic monitoring, maintenance, and repairs. Replacement of miscellaneous equipment components and software is scheduled as needed when the equipment reaches the end of its useful life and before the equipment and software become obsolete. Desktops and laptops are upgraded on a 3-year rolling schedule so that they do not become obsolete.

Ranking and Prioritization of Maintenance and Repair Activities

The NRC program managers determine the requirements for ranking, scheduling, and performing IT infrastructure M&R activities and include them in the contractor statement of work.

For the critical ITISS contract, the main ranking factor is the age of the asset (e.g., desktop, laptop, printer, BlackBerry), followed by cost and budget constraints. However, when applicable, personnel safety is considered and is the highest priority.

Factors Considered in Determining Acceptable Condition

In determining acceptable condition, the NRC mainly considers the asset's age, remaining useful life, and compatibility with current and required software. In determining acceptable condition, the NRC mainly considers the asset's age, remaining useful life, and compatibility with current and required software.