



**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**

WASHINGTON, D.C. 20004-2901

OFFICE OF THE
INSPECTOR GENERAL

December 8, 2016

MEMORANDUM TO: Chairman Joyce L. Connery

FROM: Hubert T. Bell */RA/*
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE DEFENSE NUCLEAR
FACILITIES SAFETY BOARD'S FINANCIAL STATEMENTS FOR
FISCAL YEARS 2016 AND 2015 (DNFSB-17-A-04)

The Accountability for Tax Dollars Act of 2002 (ADTA), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the Defense Nuclear Facilities Safety Board's (Board) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) contracted with Acuity Consulting, Inc. (Acuity), to conduct this annual audit. Transmitted with this memorandum are the following Acuity reports:

- Opinion on Financial Statements.
- Opinion on Internal Control Over Financial Reporting.
- Compliance with Laws, Regulations, Contracts, and Grant Agreements.

The Board's Performance and Accountability Report includes comparative financial statements for Fiscal Years (FY) 2016 and FY 2015.

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.

Acuity's audit was conducted in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. The audit included, among other things,

obtaining an understanding of the Board 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 2016 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Controls Over Financial Reporting

- Unqualified opinion.

Compliance with Laws, Regulations, and Contracts

- No reportable instances of noncompliance.

OIG Oversight of Acuity Performance

To fulfill our responsibilities under ATDA and related legislation for overseeing the audit work performed, we monitored Acuity's audit of the Board's FY 2016 and 2015 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 the Board's internal controls as needed.
- Reviewing Acuity's audit reports for compliance with U.S. generally accepted government auditing standards and OMB Bulletin No. 15-02.
- Coordinating the issuance of the audit reports.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditor's report, dated November 28, 2016, 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, and accordingly we do not express, an opinion on:

- The Board's financial statements.
- The effectiveness of the Board's internal control over financial reporting.
- The Board's compliance with laws, regulations, contracts, and grant agreements.

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

Meeting with the General Manager

At the exit conference on November 28, 2016, the General Manager of the Board and representatives of both OIG and Acuity discussed the results of the audit.

Comments of the General Manager

In his response, the General Manager agreed with the report. The full text of his response follows the auditor's report.

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

Attachment: As stated

cc: Vice Chairman J. Roberson
Board Member S. Sullivan
Board Member D. Santos
Board Member B. Hamilton
M. Welch, General Manager



INDEPENDENT AUDITOR'S REPORT

To: Inspector General
Defense Nuclear Facilities Safety Board

Chairman
Defense Nuclear Facilities Safety Board

Introduction

As a result of our audit of the Defense Nuclear Facilities Safety Board's (Board) comparative financial statements for fiscal years 2016 and 2015, we found the following:

- The financial statements as of and for the fiscal years ended September 30, 2016, and 2015, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- The Board maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016; and
- No reportable noncompliance for fiscal year 2016 with provisions of applicable laws, regulations, and contracts we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes required supplementary information (RSI) and other information included with the financial statements; (2) our report on compliance with laws, regulations, and contracts; and (3) the Board's comments on a draft of this report.

Report on the Financial Statements and on Internal Control Over Financial Reporting

We have audited the accompanying financial statements of the Defense Nuclear Facilities Safety Board, which comprise the balance sheets as of September 30, 2016, and 2015; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We have also audited the Board's internal control over financial reporting as of September 30, 2016, based on criteria established under 31 U.S.C. § 3512(c and d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA), and applicable sections of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

We conducted our audits in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.



INDEPENDENT AUDITOR'S REPORT, CONTINUED

Management's Responsibility

Board management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S.; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including 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; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA and applicable sections of OMB Circular A-123; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2016, based on its evaluation, included in the accompanying Management Report on Internal Control Over Financial Reporting (See Appendix I).

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Board's internal control over financial reporting based on our audits. We conducted our audits in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements 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 auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA and applicable sections of OMB Circular A-123. Our audits also included performing such other



INDEPENDENT AUDITOR'S REPORT, CONTINUED

procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. 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.

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, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S., (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (3) transactions are executed in accordance with laws governing the use of budget authority and with other applicable laws, regulations, and contracts that could have a direct and material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is 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 Financial Statements

In our opinion, The Board's financial statements present fairly, in all material respects, the Board's financial position as of September 30, 2016, and 2015, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with accounting principles generally accepted in the U.S.

Opinion on Internal Control Over Financial Reporting

The Board maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established under FMFIA and applicable sections of OMB Circular A-123. Our opinion on the Board's internal control over financial reporting is consistent with the Board's assertion that its internal control over financial reporting was effective as of September 30, 2016.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the



INDEPENDENT AUDITOR'S REPORT, CONTINUED

entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 significant deficiency is a deficiency, or a 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, issued by the Federal Accounting Standards Advisory Board (FASAB), require that RSI be presented to supplement the financial statements.

Although not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The Board's other information accompanying our audit report contains information, some of which is not directly related to the financial statements.

This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the Board's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.



INDEPENDENT AUDITOR'S REPORT, CONTINUED

Report on Compliance With Laws, Regulations, and Contracts

In connection with our audits of the Board's financial statements, we tested compliance with selected provisions of applicable laws, regulations, and contracts consistent with the auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Board management is responsible for complying with laws, regulations, and contracts applicable to the Board.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, and contracts applicable to the Board that have a direct effect on the determination of material amounts and disclosures in the Board's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, and contracts applicable to the Board.

Results of Our Tests for Compliance With Laws, Regulations, and Contracts

Our tests for compliance with selected provisions of applicable laws, regulations, and contracts disclosed no instances of noncompliance for fiscal year 2016 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, and contracts applicable to the Board. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance With Laws, Regulations, and Contracts

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, and contracts is not suitable for any other purpose.



INDEPENDENT AUDITOR'S REPORT, CONTINUED

Agency Comments

In commenting on a draft of this report, the General Manager stated he agreed with the results of our audit. The complete text of the Board's comments is reprinted in Appendix II.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
November 28, 2016



**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**

Washington, DC 20004-2901

November 28, 2016

Dr. Brett M. Baker
Assistant Inspector General for Audits
11555 Rockville Pike
Rockville, MD 20852

Dear Dr. Baker:

In accordance with Statements on Standards for Attestation Engagements (SSAE) No. 15, I am providing this management assertion regarding the effectiveness of internal control that apply to financial reporting by the Defense Nuclear Facilities Safety Board (Board).

The Board's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with laws governing the use of budget authority and with other applicable laws, regulations, and contracts that could have a direct and material effect on the financial statements.

As the General Manager, I am responsible for maintaining effective internal control over financial reporting, including 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. I have evaluated the effectiveness of the Board's internal control over financial reporting as of September 30, 2016, based on the criteria established under the applicable sections of Office of Management and Budget Circular A-123.

Based on that evaluation, I conclude that as of September 30, 2016, the Board's internal control over financial reporting was effective.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark T. Welch".

Mark T. Welch
General Manager



**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**

Washington, DC 20004-2901

November 28, 2016

Dr. Brett M. Baker
Assistant Inspector General for Audits
11555 Rockville Pike
Rockville, MD 20852

Dear Dr. Baker:

I appreciate the opportunity to respond to the Independent Auditor's Report of the Defense Nuclear Facilities Safety Board (Board) Fiscal Years 2016 and 2015 financial statements. I agree with the results of the audit.

I am pleased that the auditors rendered an unmodified or "clean" audit opinion, which means they found the Board's financial statements are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; that the Board maintained, in all material respects, effective internal control over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations.

I want to thank your staff and the auditors for working collaboratively with the Board's financial staff to meet the audit requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark T. Welch".

Mark T. Welch
General Manager

**Defense Nuclear Facilities Safety Board's (Board)
Financial Statements for Fiscal Years 2016 and 2015**

(Extracted from the Board's Fiscal Year 2016
Performance and Accountability Report)

FY 2016
DEFENSE NUCLEAR FACILITIES SAFETY BOARD
Performance and Accountability Report

Defense Nuclear Facilities Safety Board
BALANCE SHEET

As Of September 30, 2016 and 2015

		<u>2016</u>	<u>2015</u>
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	\$ 13,281,280.42	\$ 12,583,816.10
Other:	(Note 5)		
Advances and Prepayments		<u>40,513.00</u>	<u>14,435.00</u>
Total Intragovernmental		<u>13,321,793.42</u>	<u>12,598,251.10</u>
 Assets With The Public:			
General Property, Plant and Equipment, Net	(Note 4)	394,880.17	506,913.86
Other:	(Note 5)		
Advances and Prepayments		<u>-</u>	<u>788.40</u>
Total Assets		<u><u>\$ 13,716,673.59</u></u>	<u><u>\$ 13,105,953.36</u></u>
 Liabilities:	(Note 6)		
Intragovernmental:			
Accounts Payable	(Note 7)	\$ 234,147.10	\$ 77,929.64
Other:	(Note 9)		
Employer Contributions and Payroll Taxes Payable	(Note 8)	\$ 138,687.51	\$ 99,930.84
Other Unfunded Employment Related Liability	(Note 10)	<u>7,562.00</u>	<u>8,778.00</u>
Total Intragovernmental		<u>380,396.61</u>	<u>186,638.48</u>
 Liabilities With the Public:			
Accounts Payable		654,745.16	695,455.87
Other:	(Note 9)		
Accrued Funded Payroll and Leave		892,957.25	744,971.53
Employer Contributions and Payroll Taxes Payable		27,451.25	20,040.90
Unfunded Leave		<u>1,387,463.00</u>	<u>1,230,286.67</u>
Total Liabilities		<u><u>\$ 3,343,013.27</u></u>	<u><u>\$ 2,877,393.45</u></u>
 Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated Totals)		\$ 11,373,805.15	\$ 10,960,710.72
Cumulative Results of Operations - All Other Funds (Consolidated Totals)		(1,000,144.83)	(732,150.81)
Total Net Position - All Other Funds (Consolidated Totals)		<u>10,373,660.32</u>	<u>10,228,559.91</u>
Total Net Position		<u><u>\$ 10,373,660.32</u></u>	<u><u>\$ 10,228,559.91</u></u>
 Total Liabilities and Net Position		<u><u>\$ 13,716,673.59</u></u>	<u><u>\$ 13,105,953.36</u></u>

Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST

As Of And For The Years Ended September 30, 2016 and 2015

		2016	2015
Program Costs:			
DNFSB:			
Gross Costs		\$ 29,672,358.59	\$ 27,403,584.01
Net Program Costs	(Note 12)	29,672,358.59	27,403,584.01
Net Cost of Operations		\$ 29,672,358.59	\$ 27,403,584.01

Defense Nuclear Facilities Safety Board
STATEMENT OF CHANGES IN NET POSITION
As Of And For The Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cumulative Results of Operations:		
Beginning Balances	<u>(732,150.81)</u>	<u>908,022.08</u>
Beginning balance, as adjusted	(732,150.81)	908,022.08
Budgetary Financing Sources:		
Appropriations used	28,736,905.57	26,915,610.28
Other Financing Sources (Non-Exchange):		
Imputed financing	667,459.00	663,845.00
Total Financing Sources	29,404,364.57	27,579,455.28
Net Cost of Operations	<u>29,672,358.59</u>	<u>27,403,584.01</u>
Net Change	(267,994.02)	175,871.27
Cumulative Results of Operations	(1,000,144.83)	(732,150.81)
Unexpended Appropriations:		
Beginning Balance	<u>10,960,710.72</u>	<u>9,376,321.60</u>
Beginning Balance, as adjusted	10,960,710.72	9,376,321.60
Budgetary Financing Sources:		
Appropriations received	29,150,000.00	28,500,000.00
Appropriations used	<u>(28,736,905.57)</u>	<u>(26,915,610.28)</u>
Total Budgetary Financing Sources	<u>413,094.43</u>	<u>1,584,389.72</u>
Total Unexpended Appropriations	<u>11,373,805.15</u>	<u>10,960,710.72</u>
Net Position	<u><u>\$ 10,373,660.32</u></u>	<u><u>\$ 10,228,559.91</u></u>

Defense Nuclear Facilities Safety Board
STATEMENT OF BUDGETARY RESOURCES

As Of And For The Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	\$ 6,857,012.53	\$ 5,707,070.58
Unobligated balance brought forward, October 1, adjusted	6,857,012.53	5,707,070.58
Recoveries of prior year unpaid obligations (unobligated balances)	<u>1,242,836.26</u>	<u>563,912.98</u>
Unobligated balance from prior year budget authority, net	8,099,848.79	6,270,983.56
Appropriations (discretionary and mandatory)	29,150,000.00	28,500,000.00
Spending authority from offsetting collections	7,853.29	50.00
Total budgetary resources	<u>\$ 37,257,702.08</u>	<u>\$ 34,771,033.56</u>

STATUS OF BUDGETARY RESOURCES

Obligations incurred	(Note 13) \$ 30,743,021.98	\$ 27,914,021.03
Apportioned	2,817,076.74	6,513,167.54
Unapportioned	<u>3,697,603.36</u>	<u>343,844.99</u>
Unobligated balance brought forward, end of year	6,514,680.10	6,857,012.53
Total budgetary resources	<u>\$ 37,257,702.08</u>	<u>\$ 34,771,033.56</u>

CHANGE IN OBLIGATED BALANCE

Unpaid obligations, brought forward, October 1 (gross)	\$ 5,726,803.57	\$ 4,722,181.36
Obligations incurred	30,743,021.98	27,914,021.03
Outlays (gross) (-)	(28,460,388.97)	(26,345,485.84)
Recoveries of prior year unpaid obligations (-)	<u>(1,242,836.26)</u>	<u>(563,912.98)</u>
Unpaid obligations, end of year	6,766,600.32	5,726,803.57
Obligated balance, start of year (net)	5,726,803.57	4,722,181.36
Obligated balance, end of year (net)	<u>\$ 6,766,600.32</u>	<u>\$ 5,726,803.57</u>

BUDGET AUTHORITY AND OUTLAYS, NET

Budget authority, gross (discretionary and mandatory)	\$ 29,157,853.29	\$ 28,500,691.43
Actual offsetting collections (discretionary and mandatory) (-)	<u>(7,853.29)</u>	<u>(50.00)</u>
Budget authority, net (discretionary and mandatory)	29,150,000.00	28,500,641.43
Outlays, gross (discretionary and mandatory)	28,460,388.97	26,345,485.84
Actual offsetting collections (discretionary and mandatory) (-)	<u>(7,853.29)</u>	<u>(50.00)</u>
Outlays, net (discretionary and mandatory)	28,452,535.68	26,345,435.84
Agency outlays, net (discretionary and mandatory) (Note 15)	<u>\$ 28,452,535.68</u>	<u>\$ 26,345,435.84</u>

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

APPROPRIATED FUND

Note 1 – Significant Accounting Policies

(a) Reporting Entity

The Board is an independent Federal government agency with responsibility for the oversight of DOE's defense nuclear facilities located throughout the United States. The Board is directed by a Chairman and four other members appointed by the President. The Board's mission as described by the Atomic Energy Act of 1954, as amended, is to "provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in the role of the Secretary as operator and regulator of the defense nuclear facilities of the Department of Energy (DOE), in providing adequate protection of public health and safety at such defense nuclear facilities."

(b) Basis of Presentation

These financial statements have been prepared from the accounting records of the Board in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. GAAP for Federal entities is the hierarchy of accounting principles prescribed in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 91, *Federal GAAP Hierarchy*.

Circular A-136 requires agencies to prepare principal statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The balance sheet presents, as of September 30, 2016, amounts of future economic benefits owned or managed by the Board (assets), amounts owed by the Board (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the Board's operations and the Statement of Budgetary Resources reports Board's budgetary activity.

(c) Basis of Accounting

Transactions are recorded on the accrual accounting basis in accordance with OMB Circular A-136. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(d) Revenues and Other Financing Sources

The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2016 and FY 2015 appropriated funds are available for obligation until September 30, 2017 and September 30, 2016, respectively (i.e., two year funds). None of the appropriations is a "funds from dedicated collections" fund. An imputed financing source is recognized to offset costs incurred by the Board and funded by another Federal source (see Notes 1(i) and 8).

(e) Assets and Liabilities

Intra-governmental assets and liabilities arise from transactions between the Board and other Federal entities.

Funds with the U.S. Treasury compose the majority of assets on the Board's balance sheet. All other assets result from activity with non-federal sources.

Liabilities represent amounts that are likely to be paid by the Board as a result of transactions that have already occurred. The accounts payable portion of liabilities consist of amounts owed to federal agencies and commercial vendors for goods, services, and other expenses received but not yet paid.

Liabilities covered by budgetary or other resources are those liabilities of the Board for which Congress has appropriated funds, or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding.

(f) Fund Balance with the U.S. Treasury

The U.S. Treasury processes the Board's receipts and disbursements. Funds with the U.S. Treasury are cash balances from appropriations as of the fiscal year-end from which the Board is authorized to make expenditures and pay liabilities resulting from operational activity.

(g) Property, Plant, and Equipment (PPE)

PPE consists of capitalized equipment, furniture and fixtures, and software. There are no restrictions on the use or convertibility of property, plant, or equipment.

The Board capitalizes PPE with a useful life of at least two years and individually costing more than \$10,000 (\$25,000 for leasehold improvements). Bulk purchases of lesser value items are capitalized when the cost is \$25,000 or greater.

Assets are depreciated on a straight-line basis over the estimated used life of the property. Information Technology (IT) equipment and software is depreciated over a useful life of three years. All other equipment is depreciated over a five year useful life. Furniture and fixtures are depreciated over a seven year useful life and leasehold improvements over a ten year useful life.

The Board owns no land and leases its office space via the General Services Administration (GSA). The lease costs approximate commercial lease rates for similar properties.

(h) Annual, Sick, and Other Leave

Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

(i) Federal Employee Benefits

The Board recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render service to the Board. The pension expense recognized in the financial

statement equals the current service cost for the Board's employees for the accounting period less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies the Board with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense represents the amount being financed directly by OPM. This amount is considered imputed financing to the Board (see Note 8).

The Board recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Board accounts for and reports this expense in a manner similar to that used for pensions, with the exception that employees and the Board do not make current contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed to the Board are reported as a resource on the Statement of Changes in Net Position.

(j) Contingencies

The Board has no material pending claims or lawsuits against it. Management believes that losses from other claims or lawsuits, not yet known to management, are possible, but would not likely be material to the fair presentation of the Board's financial statements. Thus, there is no provision for such losses in its statements. The Board has not entered into any contractual arrangements which may require future financial obligations.

Note 2 – Funds Balance with the U.S. Treasury

The Board's funds with the U.S. Treasury consist only of appropriated funds. The status of these funds as of September 30, 2016 and 2015 are as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
A. Fund Balance with Treasury		
Appropriated Fund	\$13,281,280.42	\$12,583,816.10
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
(a) Available	2,817,076.74	6,513,167.54
(b) Unavailable	3,697,603.36	343,844.99
2) Obligated Balance not yet Disbursed	<u>6,766,600.32</u>	<u>5,726,803.57</u>
Total	\$13,281,280.42	\$12,583,816.10

Note 3 – Accounts Receivable, Net

The Board has no accounts receivable in FY 2016 or FY 2015. The Board has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

Note 4 - General Property, Plant and Equipment, Net

The Board's total cost, accumulated depreciation, and net book value for PPE for the years ending September 30, 2016 and 2015 are as follows.

2016	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$1,156,328.78	\$40,174.35	\$553,684.97	\$70,425.12	\$1,820,613.22
Accum. Depr.	(\$831,873.73)	(\$40,174.35)	(\$553,684.97)	(\$0)	(\$1,425,733.05)
Net Book Value	\$324,455.05	\$0	\$0	\$70,425.12	\$394,880.17

2015	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$1,460,219.93	\$40,174.35	\$553,684.97	\$0	\$2,054,079.25
Accum. Depr.	(\$953,306.07)	(\$40,174.35)	(\$553,684.97)	(\$0)	(\$1,547,165.39)
Net Book Value	\$506,913.86	\$0	\$0	\$0	\$506,913.86

Note 5 – Other Assets

The FY 2016 Other Assets amount represents an unliquidated advance.

	FY 2016	FY 2015
Intragovernmental	\$40,513.00	\$14,435.00
With the Public – Associates	\$0	\$788.40
Total Other Assets	\$40,513.00	\$15,223.40

Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board's Balance Sheets as of September 30, 2016 and 2015 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Unfunded Leave	\$1,387,463.00	\$1,230,286.67
<u>Workers' Compensation</u>	<u>\$ 7,562.00</u>	<u>\$ 8,778.00</u>
Total liabilities not covered by budgetary resources	\$1,395,025.00	\$1,239,064.67
<u>Total liabilities covered by budgetary resources</u>	<u>\$1,947,988.27</u>	<u>\$1,638,328.78</u>
Total Liabilities	\$3,343,013.27	\$2,877,393.45

Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2016, the Board had accounts payable intragovernmental liabilities of \$234,147.10 with the Department of Agriculture (\$44,453.10), GSA (\$24,800), the Department of the Treasury (\$27,234), OPM (\$42,760) and the Nuclear Regulatory Commission (\$94,900). The Board's FY2015 account payable intragovernmental liabilities of \$77,929.64 were with the Department of Homeland Security (\$35,185.42), GSA (\$22,536.22) and DOE (\$20,208.00). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2016 and 2015 for Federal Employees Health Benefits Program (FEHBP), Federal Employees' Group Life Insurance Program (FEGHIP), Federal Insurance Contributions Act (FICA), Federal Employees Retirement System (FERS), and Civil Service Retirement System (CSRS) contributions (reference Note 8).

Note 8 – Federal Employee Benefits

All permanent employees participate in the contributory CSRS or FERS. FERS employees are covered under FICA. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized by the Board's financial statements. The Board makes contributions to CSRS, FERS, and FICA and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses.

In addition, all permanent employees are eligible to participate in the contributory FEHBP and FEGHIP and may continue to participate after retirement. The Board makes contributions through OPM to FEHBP and FEGHIP for active employees to pay for current benefits; these contributions are recognized as operating expenses. The Board does not report on its financial statements these programs' assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM; however, the financing of these costs by OPM and imputed to the Board are reported on the Statement of Changes in Net Position.

Employee benefits liabilities are current (versus non-current liabilities).

Note 9– Other Liabilities

Other liabilities with the public for the years ending September 30, 2016 and 2015 consist of Accrued Funded Payroll and Leave, Withholdings Payable, Unfunded Leave and Workers' Compensation in the amounts shown below:

	With the Public	Non-Current	Current	Total
2016	Other Liabilities	\$1,387,463.00	\$1,066,658.01	\$2,454,121.01
2015	Other Liabilities	\$1,230,286.67	\$873,721.27	\$2,104,007.94

Note 10 – Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Board employees under FECA are administered by the Department of Labor and are paid, ultimately, by the Board.

Note 10 – Workers’ Compensation (continued)

The Board recorded an estimated liability for claims incurred, but not reported as of September 30, 2016 and 2015, as follows:

	FY 2016	FY 2015
Worker’s Compensation	\$7,562.00	\$8,778.00

Note 11 – Leases

The Board has not entered into any existing capital leases and thus has incurred no liability resulting from such leases. The Board has also not directly entered into any operating leases, but does have an occupancy agreement with GSA for its headquarters space (GSA has an operating lease with the building owner, the costs of which are billed to the Board). Lease costs for office space for FY 2016 and FY 2015 amounted to \$2,671,584 and \$2,461,509, respectively. The Board entered into a new ten year lease agreement effective March 8, 2016 which is due to expire on March 7, 2026. Estimated future minimum lease payments under the terms of the lease are as follows:

Fiscal Year Ending September 30	Payment
2017	\$ 2,985,810
2018	\$ 2,998,485
2019	\$ 3,097,607
2020	\$ 3,142,672
2021	\$ 3,189,086
2022 and thereafter	\$14,577,523
Total Estimated Future Lease Payments	\$29,991,183

Note 12 – Intragovernmental Costs

The portion of the Board’s program costs (note as the Board earns no revenue from its operations, gross and net costs are identical) related to Intragovernmental Costs and Costs with the Public are shown as follows. Intragovernmental Costs are costs incurred from exchange transactions with other federal entities (e.g., building lease payments to GSA). Costs with the Public are incurred from exchanged transactions with non-federal entities (i.e., all other program costs).

	Intragovernmental Costs	Costs with the Public	Total Program Costs
FY 2016	\$8,700,697.37	\$20,971,661.22	\$29,672,358.59
FY 2015	\$7,008,312.80	\$20,395,271.21	\$27,403,584.01

The Board’s program costs/net cost of operations by OMB Object Class (OC) are as follows:

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OC	Description	FY 2016	FY 2015
11	Personnel Compensation	\$14,749,177.33	\$14,936,552.13
12	Personnel Benefits	\$ 5,627,682.08	\$ 4,558,471.04
13	Former Personnel Benefits	\$ 0.00	\$ 9,334.00
21	Travel & Transportation of Persons	\$ 938,264.60	\$ 886,669.68
22	Transportation of Things	\$ 25,853.24	\$ 42,780.81
23	Rent, Communications, & Utilities	\$ 3,000,584.96	\$ 2,712,351.59
24	Printing & Reproduction	\$ 14,307.38	\$ 24,260.75
25	Other Contractual Services	\$ 4,475,259.09	\$ 3,447,747.11
26	Supplies & Materials	\$ 195,906.51	\$ 226,268.23
31	Acquisition of Assets	\$ 645,323.40	\$ 559,148.67
	Total	\$29,672,358.59	\$27,403,584.01

Note 13 – Apportionment Categories of Obligations Incurred

The Board is subject to apportionment. All obligations are incurred against Category A (budgetary resources are distributed by fiscal year quarter) amounts apportioned on the latest Standard Form (SF)-132, *Apportionment and Reapportionment Schedule*.

	FY 2016	FY 2015
Direct		
Category A	30,743,021.98	\$27,914,021.03

Note 14 – Undelivered Orders at the End of the Period

The amount of Undelivered Orders at the End of the Period (goods and services contracted for but not yet received at the end of the year) was \$4,859,125.05 and \$4,103,698.19 as of September 30, 2016 and 2015, respectively.

Note 15 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Budgetary resources made available to the Board include current appropriations, unobligated appropriations and recoveries of prior year obligations. For FY 2015, no material differences exist between the amounts on the Statements of Budgetary Resource and the amounts in the FY 2017 President's Budget which are rounded to the nearest million. As the FY 2018 President's Budget is not yet available, comparison between the Statement of Budgetary Resources and the actual FY 2016 data in the FY 2018 Budget cannot be performed.

Note 16 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

The Change in Components Requiring or Generating Resources in Future Periods equals the difference between the opening and ending balances of Liabilities Not Covered by Budgetary Resources (as shown on the Balance Sheet, reference Note 6), shown as follows:

FY 2016

	FY 2015	FY 2016	Change
Unfunded Annual Leave	\$1,230,286.67	\$1,387,463.00	(\$157,176.33)
Workers Compensation	\$ 8,778.00	\$ 7,562.00	\$ 1,216.00
Total	\$1,239,064.67	\$1,395,025.00	(\$155,960.33)

FY 2015

	FY 2014	FY 2015	Change
Unfunded Annual Leave	\$1,211,095.73	\$1,230,286.67	(\$19,190.94)
Workers Compensation	\$ 8,778.00	\$ 8,778.00	\$ 0.00
Total	\$1,219,873.73	\$1,239,064.67	(\$19,190.94)

Note accrued funded payroll liability is covered by budgetary resources and is included in the net cost of operations, whereas unfunded annual leave liability includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

Note 17 – Reconciliation of Net Cost of Operations (proprietary) to Budget

Budgetary Resources Obligated are obligations for personnel, goods, services, benefits, etc. made by the Board in order to conduct operations or acquire assets. Other (i.e., non-budgetary) financing resources are also utilized by Board in its program (proprietary) operations. For example, Spending Authority from Recoveries and Offsetting Collections are financial resources from the recoveries of prior year obligations (e.g., the completion of a contract where not all the funds were used) and refunds or other collections (i.e., funds used to conduct operations that were previously budgeted). As explained in Notes 1(i) and 8, an Imputed Financing Source from Costs Absorbed by Others is recognized for future federal employee benefits costs incurred for Board employees that will be funded by OPM. Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided represents the difference between the beginning and ending balances of undelivered orders (i.e., goods and services received during the year based on obligations incurred the prior year represent a cost of operations not funded from budgetary resources). Resources that Finance the Acquisition of Assets are budgetary resources used to finance assets and not cost of operations (e.g., increases in accounts receivables or capitalized assets). Financing Sources Yet to be Provided represents financing that will be provided in future periods for future costs that are recognized in determining the net cost of operations for the present period. Finally, Components not Requiring or Generating Resources are costs included in the net cost of operations that do not require resources (e.g., depreciation and amortized expenses of assets previously capitalized).

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A reconciliation between Budgetary Resources Obligated and Net Cost of Operations (i.e., providing an explanation between budgetary and financial (proprietary) accounting) is as follows (note: in prior years this information was presented as a separate financial statement (the Statement of Financing)):

	FY 2016	FY 2015
Budgetary Resources Obligated	\$30,743,021.98	\$27,914,021.03
Spending Authority from Recoveries and Offsetting Collections	(1,250,689.55)	(563,962.98)
Imputed Financing from Costs Absorbed by Others	667,459.00	663,845.00
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(755,426.86)	(434,447.77)
Resources that Finance the Acquisition of Assets	(106,544.62)	(461,853.37)
Financing Sources Yet to be Provided (see Note 16)	155,960.33	19,190.94
Components Not Requiring or Generating Resources	218,578.31	266,791.16
Net Cost of Operations	\$29,672,358.59	\$27,403,584.01