



**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**
WASHINGTON, D.C. 20004-2901

OFFICE OF THE
INSPECTOR GENERAL

November 15, 2018

MEMORANDUM TO: Chairman Bruce Hamilton

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 2018 AND 2017 (DNFSB-19-A-03)

The *Accountability for Tax Dollars Act of 2002* (ATDA) 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 (DNFSB) 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 audit report. Acuity examined the DNFSB's *Fiscal Year (FY) 2018 Agency Financial Report*, which includes comparative financial statements for FYs 2018 and 2017. Acuity's audit report contains the following reports:

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

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 included, among other things, obtaining an understanding of the DNFSB 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 2018 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Unmodified opinion.

Compliance with Laws, Regulations, Contracts, and Grant Agreements

- No instances of noncompliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for FY 2018 that would be reportable under U.S. generally accepted government auditing standards.

OIG Oversight of Acuity's Performance

To fulfill our responsibilities for overseeing the audit work performed, we monitored Acuity's audit of the DNFSB's FYs 2018 and 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 the DNFSB's internal control.

- Reviewing Acuity's reports for compliance with United States generally accepted government auditing standards and Office of Management and Budget Bulletin No. 19-01.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditor's report, dated November 13, 2018, 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:

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

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 General Manager

At the exit conference on November 13, 2018, the General Manager of the DNFSB 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 DNFSB's staff's cooperation.

Attachment: As stated

cc: Board Member Roberson
Board Member Santos
Board Member Connery
G. Sklar, General Manager



November 13, 2018



Audit of the Defense Nuclear Facilities Safety Board's Annual Financial Statements

Fiscal Year 2018 Financial Statements

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
Defense Nuclear Facilities Safety Board

In our audits of the fiscal years 2018 and 2017 financial statements of the Defense Nuclear Facilities Safety Board (DNFSB), we found

- the DNFSB's financial statements as of and for the fiscal years ended September 30, 2018, and 2017 are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- the DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018; and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements 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 supplemental information (RSI)¹ and other information included with the financial statements;² (2) our report on compliance with applicable laws, regulations, contracts, and grant agreements; and (3) agency comments.

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

In accordance with contract D17PD00255, we have audited the DNFSB's financial statements. The DNFSB's financial statements comprise the balance sheets as of September 30, 2018, and 2017; 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 DNFSB's internal control over financial reporting as of September 30, 2018, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the *Federal Managers' Financial Integrity Act* (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

¹ The RSI consists of Management's Discussion and Analysis, which is included with the financial statements.

² Other information consists of information included with the financial statements, other than the RSI and the auditor's report.



INDEPENDENT AUDITOR'S REPORT

Management's Responsibility

DNFSB management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (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 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 criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the DNFSB's internal control over financial reporting based on our audits. 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 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 involves performing procedures to obtain evidence about whether a material weakness exists.³ The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal

³ 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 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.



INDEPENDENT AUDITOR'S REPORT

control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered the DNFSB's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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 U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which 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 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 DNFSB's financial statements present fairly, in all material respects, the DNFSB's financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, the DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established under FMFIA.



INDEPENDENT AUDITOR'S REPORT

During our fiscal year 2018 audit, we identified deficiencies in the DNFSB's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant DNFSB management's attention. We have communicated these matters to DNFSB management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is 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 DNFSB's other information contains a wide range of 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 the 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 DNFSB's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the DNFSB's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our 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.



INDEPENDENT AUDITOR'S REPORT

Management's Responsibility

DNFSB management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the DNFSB.

Auditor's Responsibility

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

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 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, contracts, and grant agreements applicable to the DNFSB. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, 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, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, DNFSB stated it was in agreement with the report. The complete text of DNFSB's response is reprinted in the Agency Financial Report.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
Alexandria, Virginia
November 13, 2018

**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**

Washington, DC 20004-2901



November 15, 2018

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 2018 and 2017 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 that they found that the Board's financial statements are presented fairly, in all material respects, and in conformity with the United States Generally Accepted Accounting Principles; that the Board maintained, in all material respects, effective internal controls over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations.

I want to thank you, your staff, and your contractors for working collaboratively with the Board's financial staff to meet the requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn Sklar".

Glenn Sklar
General Manager

Defense Nuclear Facility Safety Board (DNFSB)

Financial Statements

For Fiscal Years 2018 and 2017

(Excerpts from Fiscal Year 2018 Agency Financial Report)



DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

FINANCIAL STATEMENTS

As Of And For The Years Ended September 30, 2018 and 2017

Defense Nuclear Facilities Safety Board

BALANCE SHEET

As Of September 30, 2018 and 2017

| | | 2018 | 2017 |
|---|----------|--------------------------------|--------------------------------|
| Assets: | | | |
| Intragovernmental: | | | |
| Fund Balance With Treasury | (Note 2) | \$ 15,367,997.45 | \$ 13,527,280.81 |
| Other: | (Note 5) | | |
| Advances and Prepayments | | - | 2.00 |
| Total Intragovernmental | | <u>15,367,997.45</u> | <u>13,527,282.81</u> |
| General Property, Plant and Equipment, Net | (Note 4) | <u>153,553.85</u> | <u>260,945.45</u> |
| Total Assets | | <u><u>\$ 15,521,551.30</u></u> | <u><u>\$ 13,788,228.26</u></u> |
| Liabilities: | (Note 6) | | |
| Intragovernmental: | | | |
| Accounts Payable | | \$ 258,454.12 | \$ 455,469.50 |
| Other: | (Note 9) | | |
| Employer Contributions and Payroll Taxes Payable | | 124,010.72 | 151,665.85 |
| Other Unfunded Employment Related Liability | | <u>762.00</u> | <u>762.00</u> |
| Total Intragovernmental | | <u>383,226.84</u> | <u>607,897.35</u> |
| Accounts Payable | | 597,531.11 | 551,064.17 |
| Other: | (Note 9) | | |
| Accrued Funded Payroll and Leave | | 803,593.65 | 1,039,510.35 |
| Employer Contributions and Payroll Taxes Payable | | 22,475.35 | 27,848.38 |
| Unfunded Leave | | <u>1,124,542.24</u> | <u>1,360,472.16</u> |
| Total Liabilities | | <u>\$ 2,931,369.19</u> | <u>\$ 3,586,792.41</u> |
| Net Position: | | | |
| Unexpended Appropriations - All Other Funds (Consolidated | | 13,561,932.50 | 11,301,724.56 |
| Cumulative Results of Operations - All Other Funds | | | |
| (Consolidated Totals) | | \$ (971,750.39) | \$ (1,100,288.71) |
| Total Net Position - All Other Funds (Consolidated | | | |
| Totals) | | <u>12,590,182.11</u> | <u>10,201,435.85</u> |
| Total Net Position | | <u>\$ 12,590,182.11</u> | <u>\$ 10,201,435.85</u> |
| Total Liabilities and Net Position | | <u><u>\$ 15,521,551.30</u></u> | <u><u>\$ 13,788,228.26</u></u> |

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST

As Of And For The Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|-------------------------------|--------------------------------|--------------------------------|
| | <hr/> | <hr/> |
| Program Costs: | | |
| DNFSB: | | |
| Gross Costs | \$ 29,395,946.23 | \$ 31,447,586.92 |
| Net Program Costs | (Note 12) 29,395,946.23 | 31,447,586.92 |
| | <hr/> | <hr/> |
| Net Cost of Operations | <u><u>\$ 29,395,946.23</u></u> | <u><u>\$ 31,447,586.92</u></u> |

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board
STATEMENT OF CHANGES IN NET POSITION
As Of And For The Years Ended September 30, 2018 and 2017

FY 2018 (Current Year)

| | Funds From Dedicated Collections (Consolidated Totals) | All Other Funds (Consolidated Totals) | Eliminations | Consolidated Total |
|---|--|--|--------------|--------------------|
| Unexpended Appropriations: | | | | |
| Beginning Balance | | \$ 11,301,724.56 | | \$ 11,301,724.56 |
| Beginning balance, as adjusted | | 11,301,724.56 | | 11,301,724.56 |
| Budgetary Financing Sources: | | | | |
| Appropriations received | | 31,000,000.00 | | 31,000,000.00 |
| Other Adjustments (+/-) | | (110,791.14) | | (110,791.14) |
| Appropriations used | | (28,629,000.92) | | (28,629,000.92) |
| Total Budgetary Financing Sources | | 2,260,207.94 | | 2,260,207.94 |
| Total Unexpended Appropriations | | 13,561,932.50 | | 13,561,932.50 |
| Cumulative Results from Operations | | | | |
| Beginning Balances | | \$ (1,100,288.71) | | \$ (1,100,288.71) |
| Beginning balances, as adjusted | | (1,100,288.71) | | (1,100,288.71) |
| Budgetary Financing Sources: | | | | |
| Appropriations used | | 28,629,000.92 | | 28,629,000.92 |
| Other Financing Sources (Nonexchange): | | | | |
| Imputed Financing | | 895,483.63 | | 895,483.63 |
| Total Financing Sources | | 29,524,484.55 | | 29,524,484.55 |
| Net Cost of Operations | | 29,395,946.23 | | 29,395,946.23 |
| Net Change | | 128,538.32 | | 128,538.32 |
| Cumulative Results of Operations | | (971,750.39) | | (971,750.39) |
| Net Position | | \$ 12,590,182.11 | | \$ 12,590,182.11 |

Defense Nuclear Facilities Safety Board
STATEMENT OF CHANGES IN NET POSITION
As Of And For The Years Ended September 30, 2018 and 2017

FY 2017 (Prior Year)

| | Funds From Dedicated Collections (Consolidated Totals) | All Other Funds (Consolidated Totals) | Eliminations | Consolidated Total |
|---|--|--|--------------|--------------------|
| Unexpended Appropriations: | | | | |
| Beginning Balance | | \$ 11,373,805.15 | | \$ 11,373,805.15 |
| Beginning balance, as adjusted | | 11,373,805.15 | | 11,373,805.15 |
| Budgetary Financing Sources: | | | | |
| Appropriations received | | 30,872,000.00 | | 30,872,000.00 |
| Appropriations used | | (30,944,080.59) | | (30,944,080.59) |
| Total Budgetary Financing Sources | | (72,080.59) | | (72,080.59) |
| Total Unexpended Appropriations | | 11,301,724.56 | | 11,301,724.56 |
| Cumulative Results from Operations | | | | |
| Beginning Balances | | \$ (1,000,144.83) | | \$ (1,000,144.83) |
| Beginning balances, as adjusted | | (1,000,144.83) | | (1,000,144.83) |
| Budgetary Financing Sources: | | | | |
| Appropriations used | | 30,944,080.59 | | 30,944,080.59 |
| Other (+/-) | | (132,855.55) | | (132,855.55) |
| Other Financing Sources (Nonexchange): | | | | |
| Imputed Financing | | 536,218.00 | | 536,218.00 |
| Total Financing Sources | | 31,347,443.04 | | 31,347,443.04 |
| Net Cost of Operations | | 31,447,586.92 | | 31,447,586.92 |
| Net Change | | (100,143.88) | | (100,143.88) |
| Cumulative Results of Operations | | (1,100,288.71) | | (1,100,288.71) |
| Net Position | | \$ 10,201,435.85 | | \$ 10,201,435.85 |

Defense Nuclear Facilities Safety Board
STATEMENT OF BUDGETARY RESOURCES

As Of And For The Years Ended September 30, 2018 and 2017

| | <u>2018</u> <u>Budgetary</u> | <u>2017</u> <u>Budgetary</u> |
|---|---------------------------------|---------------------------------|
| Budgetary resources: | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | \$ 8,140,499.59 | \$ 7,974,856.58 |
| Appropriations (discretionary and mandatory) | <u>31,000,000.00</u> | <u>30,872,000.00</u> |
| Total budgetary resources | <u>\$ 39,140,499.59</u> | <u>\$ 38,846,856.58</u> |
| Status of budgetary resources: | | |
| New obligations and upward adjustments (total) | (Note 13) \$ 29,805,491.70 | \$ 30,835,345.13 |
| Unobligated balance, end of year: | | |
| Apportioned, unexpired account | <u>5,156,144.35</u> | <u>3,576,160.19</u> |
| Unexpired unobligated balance, end of year | <u>5,156,144.35</u> | <u>3,576,160.19</u> |
| Expired unobligated balance, end of year | <u>4,178,863.54</u> | <u>4,435,351.26</u> |
| Unobligated balance, end of year (total) | <u>9,335,007.89</u> | <u>8,011,511.45</u> |
| Total budgetary resources | <u>\$ 39,140,499.59</u> | <u>\$ 38,846,856.58</u> |
| Outlay, net: | | |
| Outlays, net (total) (discretionary and mandatory) | <u>\$ 29,048,492.22</u> | <u>\$ 30,625,999.61</u> |
| Agency outlays, net (discretionary and mandatory) | <u>\$ 29,048,492.22</u> | <u>\$ 30,625,999.61</u> |

The accompanying notes are an integral part of these statements.

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

2.3.2.1 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, 2018, 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 the 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 2018 and FY 2017 appropriated funds are available for obligation until September 30, 2019 and September 30, 2018, 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), 8 and 9).

(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.

2.3.2.2 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, 2018, and 2017, are as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| A. Fund Balance with Treasury General Fund | \$ 15,367,997.45 | \$ 13,527,280.81 |
| | | |

| | | |
|---|------------------|------------------|
| B. Status of Fund Balance with Treasury | | |
| 1) Unobligated Balance | | |
| a) Available | \$ 5,156,144.35 | \$ 3,576,160.19 |
| b) Unavailable | \$ 4,178,863.54 | \$ 4,435,351.26 |
| 2) Obligated Balance not yet Disbursed | \$ 6,032,989.56 | \$ 5,515,769.36 |
| Total | \$ 15,367,997.45 | \$ 13,527,280.81 |

2.3.2.3 Note 3 – Accounts Receivable, Net

The Board has no accounts receivable in FY 2018 or FY 2017. The Board has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

2.3.2.4 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, 2018 and 2017 are as follows.

| 2018 | Equipment | Furniture & Fixtures | Software | Software in Development | Total |
|----------------|-------------------|----------------------|-----------------|-------------------------|-------------------|
| Cost | \$ 1,053,331.18 | \$ 116,832.25 | \$ 356,658.21 | - | \$ 1,526,821.64 |
| Accum. Depr. | \$ (961,467.36) | \$ (55,142.22) | \$ (356,658.21) | - | \$ (1,373,267.79) |
| Net Book Value | \$ 91,863.82 | \$ 61,690.03 | - | - | \$ 153,553.85 |
| 2017 | Equipment | Furniture & Fixtures | Software | Software in Development | Total |
| Cost | \$ 1,273,133.86 | \$ 40,174.35 | \$ 553,684.97 | - | \$ 1,866,993.18 |
| Accum. Depr. | \$ (1,012,188.41) | \$ (40,174.35) | \$ (553,684.97) | - | \$ (1,606,047.73) |
| Net Book Value | \$ 260,945.45 | - | - | - | \$ 260,945.45 |

2.3.2.5 Note 5 – Other Assets

The FY 2017 Other Assets amount represents an unliquidated advance.

| | 2018 | 2017 |
|--------------------------|------|---------|
| Intragovernmental | | |
| Advances and Prepayments | \$ - | \$ 2.00 |
| Total Intragovernmental | \$ - | \$ 2.00 |
| Total Other Assets | \$ - | \$ 2.00 |

2.3.2.6 Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board's Balance Sheets as of September 30, 2018 and 2017 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, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|-----------------|-----------------|
| Intragovernmental | | |
| Accounts Payable | \$ 258,454.12 | \$ 455,469.50 |
| Employer Contributions and Payroll Taxes Payable | \$ 124,010.72 | \$ 151,665.85 |
| Worker's Compensation | \$ 762.00 | \$ 762.00 |
| Total Intragovernmental | \$ 383,226.84 | \$ 607,897.35 |
| With the Public | | |
| Accounts Payable | \$ 597,531.11 | \$ 551,064.17 |
| Accrued Funded Payroll and Leave | \$ 803,593.65 | \$ 1,039,510.35 |
| Employer Contributions and Payroll Taxes Payable | \$ 22,475.35 | \$ 27,848.38 |
| Unfunded Leave | \$ 1,124,542.24 | \$ 1,360,472.16 |
| Total with the Public | \$ 2,548,142.35 | \$ 2,978,895.06 |
| Total Liabilities | \$ 2,931,369.19 | \$ 3,586,792.41 |
| Total Liabilities not covered by budgetary resources | \$ 1,125,304.24 | \$ 1,361,234.16 |
| Total Liabilities covered by budgetary resources | \$ 1,806,064.95 | \$ 2,225,558.25 |
| Total Liabilities | \$ 2,931,369.19 | \$ 3,586,792.41 |

2.3.2.7 Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2018, the Board had accounts payable intragovernmental liabilities of \$258,454.12: With the Department of Agriculture (\$17,194.70), GSA (\$213,963.92) and the Department of Homeland Security (\$27,295.50). The Board's FY2017 account payable intragovernmental liabilities of \$455,469.50 were the Department of Agriculture (\$11,473.75), GSA (\$37,002.39), OPM (\$14,760) and the Department of Homeland Security (\$392,233.36). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2018 and 2017 for Federal Employees Health Benefits Program (FEHBP), Federal Employees' Group Life Insurance Program (FEGLIP), Federal Insurance Contributions Act (FICA), Federal Employees Retirement System (FERS), and Civil Service Retirement System (CSRS) contributions (reference Note 8).

2.3.2.8 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 FEGLIP and may continue to participate after retirement. The Board makes contributions through OPM to FEHBP and FEGLIP 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).

2.3.2.9 Note 9– Other Liabilities

Other liabilities with the public for the year ended September 30, 2018 and 2017 consist of Accrued Funded Payroll and Leave, Employer Contributions and Payroll Taxes Payable, and Unfunded Leave in the amounts shown below. Other Intragovernmental liabilities consist of Employer Contributions and Payroll Taxes Payable and Worker's Compensation Liability.

| | FY 2018 | | |
|--|--------------------|----------------|-----------------|
| | Non-Current | Current | Total |
| Intragovernmental | | | |
| Employer contributions and Payroll Taxes Payable | | \$ 124,010.72 | \$ 124,010.72 |
| Worker's compensation Liability | | \$ 762.00 | \$ 762.00 |
| Total Intragovernmental | | \$ 124,772.72 | \$ 124,772.72 |
| Liabilities with the Public | | | |
| Accrued Funded Payroll & Leave | | \$ 803,593.65 | \$ 803,593.65 |
| Employer Contributions and Payroll Taxes Payable | | \$ 22,475.35 | \$ 22,475.35 |
| Unfunded leave | \$ 1,124,542.24 | | \$ 1,124,542.24 |
| Total Liabilities with the Public | \$ 1,124,542.24 | \$ 826,069.00 | \$ 1,950,611.24 |
| Total Other Liabilities | \$ 1,124,542.24 | \$ 950,841.72 | \$ 2,075,383.96 |

| | FY 2017 | | |
|--|--------------------|-----------------|-----------------|
| | Non-Current | Current | Total |
| Intragovernmental | | | \$ - |
| Employer contributions and Payroll Taxes Payable | | \$ 151,665.85 | \$ 151,665.85 |
| Worker's compensation Liability | | \$ 762.00 | \$ 762.00 |
| Total Intragovernmental | | \$ 152,427.85 | \$ 152,427.85 |
| Liabilities with the Public | | | |
| Accrued Funded Payroll & Leave | | \$ 1,039,510.35 | \$ 1,039,510.35 |
| Employer Contributions and Payroll Taxes Payable | | \$ 27,848.38 | \$ 27,848.38 |
| Unfunded leave | \$ 1,360,472.16 | | \$ 1,360,472.16 |

| | | | |
|-----------------------------------|------------------------|------------------------|------------------------|
| Total Liabilities with the Public | \$ 1,360,472.16 | \$ 1,067,358.73 | \$ 2,427,830.89 |
| Total Other Liabilities | <u>\$ 1,360,472.16</u> | <u>\$ 1,219,786.58</u> | <u>\$ 2,580,258.74</u> |

2.3.2.10 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.

The Board recorded an estimated liability for claims incurred, but not paid as of September 30, 2018, and 2017, as follows:

| | FY 2018 | FY 2017 |
|-----------------------|----------------|----------------|
| Worker’s Compensation | \$ 762.00 | \$ 762.00 |

2.3.2.11 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 2018 and FY 2017 amounted to \$3,007,545 and \$2,978,670, respectively. The Board entered into a new ten year occupancy agreement effective March 8, 2016 which is due to expire on March 7, 2026. Estimated future lease payments under the terms of the occupancy agreement are as follows:

| Fiscal Year Ending September 30 | Payment |
|--|----------------|
| 2019 | \$ 3,097,607 |
| 2020 | \$ 3,142,672 |
| 2021 | \$ 3,189,085 |
| 2022 | \$ 3,236,889 |
| 2023 | \$ 3,286,123 |
| 2024 and thereafter until 2026 | \$ 8,054,511 |
| Total Estimated Future Lease Payments | \$ 24,006,887 |

2.3.2.12 Note 12 – Costs and Exchange Revenue

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 2018 | \$ 8,766,883.92 | \$ 20,629,062.31 | \$ 29,395,946.23 |
| FY 2017 | \$ 8,635,793.40 | \$ 22,811,793.52 | \$ 31,447,586.92 |

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

| OC | Description | FY 2018 | FY 2017 |
|-----------|------------------------------------|------------------|------------------|
| 11 | Personnel Compensation | \$ 14,127,558.94 | \$ 16,186,761.72 |
| 12 | Personnel Benefits | \$ 5,318,801.47 | \$ 5,644,940.79 |
| 13 | Former Personnel Benefits | \$ 16.00 | \$ 18,932.00 |
| 21 | Travel & Transportation of Persons | \$ 836,656.99 | \$ 817,366.21 |
| 22 | Transportation of Things | \$ 4,147.60 | \$ 23,265.97 |
| 23 | Rent, Communications, & Utilities | \$ 3,413,515.95 | \$ 3,189,184.42 |
| 24 | Printing & Reproduction | \$ 5,351.61 | \$ 6,931.00 |
| 25 | Other Contractual Services | \$ 5,176,626.35 | \$ 4,525,958.43 |
| 26 | Supplies & Materials | \$ 221,023.95 | \$ 203,016.77 |

| | | | |
|----|-----------------------|------------------|------------------|
| 31 | Acquisition of Assets | \$ 292,247.37 | \$ 831,229.61 |
| | Total | \$ 29,395,946.23 | \$ 31,447,586.92 |

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

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 2018 | FY 2017 |
|------------|------------------|------------------|
| Direct | | |
| Category A | \$ 29,805,491.70 | \$ 30,835,345.13 |

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

The amount of DNFSB's undelivered orders was \$4,226,924.61 and \$3,290,213.11 as of September 30, 2018 and 2017, respectively.

| | Unpaid Undelivered Orders | Paid Undelivered Orders | Total Undelivered Orders |
|------|---------------------------|-------------------------|--------------------------|
| 2018 | \$ 4,226,924.61 | | \$ 4,226,924.61 |
| 2017 | \$ 3,902,211.11 | \$ 2.00 | \$ 3,902,213.11 |

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

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2018 actual budgetary execution information is scheduled for publication in February 2019, which will be available through OMB's website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2017 SBR and the related President's Budget reflected the following:

| | Budgetary Resources | Obligations Incurred | Net Outlays |
|----------------------------------|---------------------|----------------------|------------------|
| Statement of Budgetary Resources | \$ 38,846,856.58 | \$ 30,835,345.13 | \$ 30,625,999.61 |

| | | | |
|--------------------------------------|------------------------|------------------------|----------------------|
| Expired Unobligated Balances | \$ (4,435,351.26) | | |
| <i>Budget of the U.S. Government</i> | \$ 35,000,000.00 | \$ 31,000,000.00 | \$ 30,000,000.00 |
| Difference | <u>\$ (588,494.68)</u> | <u>\$ (164,654.87)</u> | <u>\$ 625,999.61</u> |

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources, obligations incurred, and net outlays are primarily due to rounding.

2.3.2.16 Note 16 – Reconciliation of Net Cost of Operations 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).

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 2018 | FY 2017 |
|---|------------------|-------------------|
| Budgetary Resources Obligated | \$ 29,805,491.70 | \$ 30,835,345.13 |
| | | |
| Spending Authority from Recoveries and Offsetting Collections | \$ (519,303.64) | \$ (1,460,176.48) |
| Other Resources | \$ 895,483.63 | \$ 403,362.45 |
| Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided | \$ (657,187.14) | \$ 1,568,911.94 |
| Resources that Finance the Acquisition of Assets | \$ (76,657.90) | \$ (179,235.51) |
| Financing Sources Yet to be Provided (see Note 16) | \$ (235,929.92) | \$ (33,790.84) |
| Components Not Requiring or Generating Resources | \$ 184,049.50 | \$ 313,170.23 |
| | | |
| Net Cost of Operations | \$ 29,395,946.23 | \$ 31,447,586.92 |