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

OFFICE OF THE
INSPECTOR GENERAL

December 18, 2019

MEMORANDUM TO: Chairman Hamilton

FROM: David C. Lee ***R/A***
Deputy Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2019 (DNFSB-20-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 CliftonLarsonAllen (CLA) to conduct this annual audit. Transmitted with this memorandum is CLA's audit report. CLA examined DNFSB's Fiscal Year (FY) 2019 Agency Financial Report, which includes financial statements for FY 2019. CLA'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.

CLA's audit included, among other things, obtaining an understanding of 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 internal controls, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of any 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 2019 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Unmodified opinion with significant deficiency

Compliance with Laws and Regulations

- No instances of noncompliance noted.

OIG Oversight of CLA's Performance

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored CLA's audit of DNFSB's FY 2019 financial statements by:

- Reviewing CLA's audit approach and planning.
- Evaluating the qualifications and independence of CLA's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing DNFSB's internal controls.
- Reviewing CLA's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 19-03.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

CLA is responsible for the attached auditor's report, dated December 17, 2019, 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:

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

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

Meeting with the Chief Financial Officer

At the exit conference on December 16, 2019, representatives of the Office of the Chief Financial Officer, OIG, and CLA discussed the results of the audit.

Comments of the Chief Financial Officer

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

We appreciate the DNFSB staff's cooperation.

Attachment: As stated

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

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
Defense Nuclear Facilities Safety Board

In our audit of the fiscal year 2019 financial statements of the Defense Nuclear Facilities Safety Board (DNFSB), we found

- DNFSB's financial statements as of and for the fiscal year ended September 30, 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- Although internal controls could be improved, DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019; and
- No reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more details (1) our report on the financial statements and on internal control over financial reporting, required supplementary information (RSI)[1], and other information (OI)[2] included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grants agreements; and (4) agency comments.

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

In accordance with our contract with the United States Nuclear Regulatory Commission's Office of Inspector General, we have audited DNFSB's financial statements. DNFSB's financial statements comprise of the balance sheet as of September 30, 2019; the related statement of net cost, changes in net position, and budgetary resources for the fiscal year ended; and the related notes to the financial statements. We also audited DNFSB's internal control over financial reporting as of September 30, 2019, 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 and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB 19-03). We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

[1] The RSI consists of Management's Discussion and Analysis (MD&A) and the Combined Statement of Budgetary Resources, which are included with the financial statements.
[2] Other Information consists of information included with the financial statements, other than RSI and the auditors' 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 auditors' 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 (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2019, included in the MD&A.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on 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 audit 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 OI 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 auditors' judgment, including the auditors' 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[3] exists. The procedures selected depend on the auditor's judgement, 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 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 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.

[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.

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.

Definition 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, DNFSB's financial statements present fairly, in all material respects, DNFSB's financial position as of September 30, 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved, DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on criteria established under FMFIA.

As discussed below and in more detail in Exhibit A, our 2019 audit identified a deficiency in DNFSB's controls in monitoring and adjusting obligations for undelivered orders that were no longer valid, that represents a significant deficiency in DNFSB's internal control over financial reporting[4]. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on DNFSB's fiscal year 2019 financial statements.

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[4] A significant deficiency is a deficiency or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Although the significant deficiency in internal control did not affect our opinion on DNFSB's fiscal year 2019 financial statements, misstatements may occur in unaudited financial information reported internally and externally by DNFSB because of this significant deficiency.

In addition to the significant deficiency in internal control discussed above, we also identified deficiencies in DNFSB's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant DNFSB's management attention. We have communicated these matters to DNFSB management and, where appropriate, will report on them separately.

Other Matters

Fiscal year 2018 financial statements

The accompanying fiscal year 2018 financial statements of DNFSB were audited by other auditors whose report thereon dated November 13, 2018, expressed an unmodified opinion on the financial statements and internal control over financial reporting.

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

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 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 audit of DNFSB's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' 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 and OMB 19-03.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to DNFSB that have a direct effect on the determination of material amounts and disclosures in 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 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 2019 that would be reportable under U.S. generally accepted government auditing standards and OMB 19-03. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to 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.

DNFSB Management's Comments

DNFSB management, in its response to the discussion draft report we provided for comment, stated that it was in agreement with the draft report. The complete text of DNFSB's response is reprinted in the Agency Financial Report.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
December 17, 2019

EXHIBIT A
Significant Deficiency

DEOBLIGATE AGED UNDELIVERED ORDERS ON A TIMELY BASIS

Criteria:

DNFSB Work Practice: Guidance for Division of Acquisition and Finance (DAF) Staff on De-obligating Excess Funds, WP-211.1-1 (approved 4/10/15 and reviewed 4/10/18), Section 6A:

(6) Contracts - The de-obligation of remaining funds for firm fixed price and labor-hour contracts should occur once the contract is closed out in accordance with FAR 4.804-5 "Procedures for closing out contract files". Such procedures shall begin within 45 days of the contract period of performance ending and receipt by the contracting officer of evidence of physical completion. The complete closeout process should normally occur within six months or the process beginning. The contracting officer shall make every effort to close out all contracts and de-obligate remaining funds as expeditiously as possible. Once the closeout documents are completed, DAF will de-obligate any remaining funds.

B. Review. The DAF staff will review the monthly "Aging Report" and then discuss with the Director, within 5 work days of receipt, the status of open ACT Numbers in which funds appear to be ready to be de-obligated. The General Manager will also be briefed quarterly (June, Sept, December, March) by the Director within 10 work days of the receipt of the Aging Report.

Condition:

Aged undelivered orders (UDOs) or obligations that were no longer valid were not deobligated timely. Our test disclosed 11 UDOs, totaling $404 thousand with no recent activity and a period of performance end date ranging from 2009 to 2018, were not deobligated until the independent financial statement auditors inquired of the status.

Cause:

Requests for deobligation were not processed timely in accordance with applicable agency policies and procedures.

Effect:

By not ensuring timely review and deobligation of aged UDOs, the agency is unnecessarily tying up funds that could be used for other mission critical activities. UDOs were overstated by $404 thousand throughout fiscal year 2019, although corrected at yearend, and $397 thousand of this amount should have been deobligated in 2018 or prior.

Recommendation:

CLA recommends that DNFSB develop a plan to ensure funds are deobligated timely.

DEFENSE NUCLEAR FACILITIES
SAFETY BOARD
Washington, DC 20004-2901

December 17, 2019

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 2019 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 accordance with the U.S. 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 staff to meet the requirements.

Respectfully,

Glenn Sklar
General Manager

1.1 FY 2019 Financial Statements and Notes

1.1.1 Financial Statements

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

FINANCIAL STATEMENTS

As Of And For The Years Ended September 30, 2019 and 2018

Defense Nuclear Facilities Safety Board

BALANCE SHEET

As Of September 30, 2019 and 2018

		2019	2018
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	$ 20,290,799.53	$ 15,367,997.45
Total Intragovernmental		20,290,799.53	15,367,997.45
Accounts Receivable, net	(Note 3)	21,117.22	-
General Property, Plant and Equipment, Net	(Note 4)	109,496.90	153,553.85
Total Assets		$ 20,421,413.65	$ 15,521,551.30
Liabilities:	(Note 6)		
Intragovernmental:			
Accounts Payable		$ 457,972.49	$ 258,454.12
Other:	(Note 9)		
Employer Contributions and Payroll Taxes Payable		136,147.94	124,010.72
Other Unfunded Employment Related Liability		-	762.00
Total Intragovernmental		594,120.43	383,226.84
Accounts Payable		558,575.17	597,531.11
Other:	(Note 9)		
Accrued Funded Payroll and Leave		534,616.92	803,593.65
Employer Contributions and Payroll Taxes Payable		25,569.01	22,475.35
Unfunded Leave		1,153,649.53	1,124,542.24
Total Liabilities		$ 2,866,531.06	$ 2,931,369.19
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated		18,577,918.00	13,561,932.50
Cumulative Results of Operations - All Other Funds (Consolidated Totals)		$ (1,023,035.41)	$ (971,750.39)
Total Net Position - All Other Funds (Consolidated Totals)		17,554,882.59	12,590,182.11
Total Net Position		$ 17,554,882.59	$ 12,590,182.11
Total Liabilities and Net Position		$ 20,421,413.65	$ 15,521,551.30

The accompanying notes are an integral part of these statements.

1

Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST
As Of And For The Years Ended September 30, 2019 and 2018

		2019	2018
Program Costs:			
DNFSB:			
Gross Costs		$ 26,853,936.69	$ 29,395,946.23
Net Program Costs	(Note 12)	26,853,936.69	29,395,946.23
Net Cost of Operations		$ 26,853,936.69	$ 29,395,946.23

The accompanying notes are an integral part of these statements.

2

Defense Nuclear Facilities Safety Board

STATEMENT OF CHANGES IN NET POSITION

As of and for the Years Ended September 30, 2019 and 2018

	FY 2019 (Current Year) Total	FY 2018 (Prior Year) Total
Unexpended Appropriations:		
Beginning Balance	$ 13,561,932.50	$ 11,301,724.56
Beginning balance, as adjusted	$ 13,561,932.50	$ 11,301,724.56
Budgetary Financing Sources:		
Appropriations received	$ 31,000,000.00	$ 31,000,000.00
Other Adjustments (+/-)	$ (118,188.55)	$ (110,791.14)
Appropriations used	$ (25,865,825.95)	$ (28,629,000.92)
Total Budgetary Financing Sources	$ 5,015,985.50	$ 2,260,207.94
Total Unexpended Appropriations	$ 18,577,918.00	$ 13,561,932.50
Cumulative Results from Operations		
Beginning Balances	$ (971,750.39)	$ (1,100,288.71)
Beginning balances, as adjusted	$ (971,750.39)	$ (1,100,288.71)
Budgetary Financing Sources:		
Appropriations used	$ 25,865,825.95	$ 28,629,000.92
Other Financing Sources (Nonexchange):		
Imputed Financing	$ 936,825.72	$ 895,483.63
Total Financing Sources	$ 26,802,651.67	$ 29,524,484.55
Net Cost of Operations	$ 26,853,936.69	$ 29,395,946.23
Net Change	$ (51,285.02)	$ 128,538.32
Cumulative Results of Operations	$ (1,023,035.41)	$ (971,750.39)
Net Position	$ 17,554,882.59	$ 12,590,182.11

3

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board

STATEMENT OF BUDGETARY RESOURCES

As Of And For The Years Ended September 30, 2019 and 2018

		2019 Budgetary	2018 Budgetary
Budgetary resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)		$ 9,986,424.38	$ 8,140,499.59
Appropriations (discrectionary and mandatory)		31,000,000.00	31,000,000.00
Total budgetary resources		$ 40,986,424.38	$ 39,140,499.59
Status of budgetary resources:			
New obligations and upward adjustments (total)	(Note 13)	$ 28,408,803.95	$ 29,805,491.70
Unobligated balance, end of year:			
Apportioned, unexpired account		7,996,075.65	5,156,144.35
Unapportioned, unexpired accounts		343,252.58	-
Unexpired unobligated balance, end of year		8,339,328.23	5,156,144.35
Expired unobligated balance, end of year		4,238,292.20	4,178,863.54
Unobligated balance, end of year (total)		12,577,620.43	9,335,007.89
Total budgetary resources		$ 40,986,424.38	$ 39,140,499.59
Outlay, net:			
Outlays, net (total) (discretionary and mandatory)		$ 25,959,009.37	$ 29,048,492.22
Agency outlays, net (discretionary and mandatory)		$ 25,959,009.37	$ 29,048,492.22

4

1.1.2 Financial Statement Notes

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL 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, 2019, 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 2019 and FY 2018 appropriated funds are available for obligation until September 30, 2020 and September 30, 2019, 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.

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, 2019 and 2018 are as follows:

	2019	2018
A. Fund Balance with Treasury		
General Fund	$ 20,290,799.53	$ 15,367,997.45
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	7,996,075.65	5,156,144.35
b) Unavailable	4,581,544.78	4,178,863.54
2) Obligated Balance not yet Disbursed	7,713,179.10	6,032,989.56
Total	$ 20,290,799.53	$ 15,367,997.45

Note 3 – Accounts Receivable, Net

This FY2019 line item represents Accounts Receivable for refund received from vendors and not deposited until FY2020. The direct write-off method is used for uncollectible receivables.

	2019	2018
Accounts Receivable	$ 21,117.22	$ -
	$ 21,117.22	$ -

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, 2019 and 2018 are as follows.

2019	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	944,744.61	116,832.25	356,658.21	-	1,418,235.07
Accum. Depr.	(871,408.45)	(80,671.51)	(356,658.21)	-	(1,308,738.17)
Net Book Value	73,336.16	36,160.74	0.00	0.00	109,496.90

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

Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board's Balance Sheets as of September 30, 2019 and 2018 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, 2019 and 2018 is as follows:

	2019	2018
Intragovernmental		
Accounts Payable	$ 457,972.49	$ 258,454.12
Employer Contributions and Payroll Taxes Payable	$ 136,147.94	$ 124,010.72
Worker's Compensation	$ -	$ 762.00
Total Intragovernmental	594,120.43	383,226.84
With the Public		
Accounts Payable	558,575.17	597,531.11
Accrued Funded Payroll and Leave	534,616.92	803,593.65
Employer Contributions and Payroll Taxes Payable	25,569.01	22,475.35
Unfunded Leave	1,153,649.53	1,124,542.24
Total With the Public	2,272,410.63	2,548,142.35
Total Liabilities	$ 2,866,531.06	$ 2,931,369.19
Total liabilities not covered by budgetary resources	$ 1,153,649.53	$ 1,125,304.24
Total liabilities covered by budgetary resources	1,712,881.53	1,806,064.95
Total Liabilities	$ 2,866,531.06	$ 2,931,369.19

Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2019, the Board had accounts payable intragovernmental liabilities of $457,972.49: With the Department of Agriculture ($52,851.73), GSA ($189,113.74), Federal Mediation and Conciliation Service ($15,000) and the Department of Homeland Security ($201,007.02). 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). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2019 and 2018 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).

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).

Note 9– Other Liabilities

Other liabilities with the public for the year ended September 30, 2019 and 2018 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 2019

	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	$ -	$ 136,147.94	$ 136,147.94
Worker's Compensation Liability		$ -	$ -
Total Intragovernmental	-	136,147.94	136,147.94
Liabilities with the Public			
Accrued Funded Payroll & Leave		534,616.92	534,616.92
Employer Contributions and Payroll Taxes Payable		25,569.01	25,569.01
Unfunded Leave	1,153,649.53		1,153,649.53
Total Liabilities with the Public	1,153,649.53	560,185.93	1,713,835.46
Total Other Liabilities	$ 1,153,649.53	$ 696,333.87	$ 1,849,983.40

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

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 as follows:

	FY 2019	FY 2018
Worker's Compensation	$0	$762.00

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). Annual lease costs for office space for FY 2019 and FY 2018 amounted to $2,909,320, and $2,990,183, 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
2020	$3,142,672
2021	$3,189,085
2022	$3,236,889
2023	$3,286,123
2024	$3,336,831
2025 and thereafter until March 7, 2026	$4,717,680
Total Estimated Future Lease Payments	$20,909,280

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 2019	$8,135,888.58	$18,718,048.11	$26,853,936.69
FY 2018	$8,766,883.92	$20,629,062.31	$29,395,946.23

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

OC	Description	FY 2019	FY 2018
11	Personnel Compensation	$12,545,197.00	$14,127,558.94
12	Personnel Benefits	$ 4,112,090.98	$5,318,801.47
13	Former Personnel Benefits		$16.00
21	Travel & Transportation of Persons	$ 705,482.80	$836,656.99
22	Transportation of Things	$ 28,591.74	$4,147.60
23	Rent, Communications, & Utilities	$ 3,988,075.18	$3,413,515.95
24	Printing & Reproduction	$ 22,895.40	$5,351.61
25	Other Contractual Services	$ 5,136,227.72	$5,176,626.35
26	Supplies & Materials	$ 210,278.62	$221,023.95
31	Acquisition of Assets	$ 105,097.25	$292,247.37
	Total	$26,853,936.69	$29,395,946.23

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 2019	FY 2018
Direct		
Category A	28,408,803.95	29,805,491.70

Note 14 – Undelivered Orders at the End of the Period

The amount of DNFSB's undelivered orders was $6,374,416.66 and $4,226,924.61 as of September 30, 2019 and 2018, respectively.

	Unpaid Undelivered Orders	Paid Undelivered Orders	Total Undelivered Orders
2019	$ 6,000,297.57	$ -	$ 6,000,297.57
2018	$ 4,226,924.61	$ -	$ 4,226,924.61

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 2019 actual budgetary execution information is scheduled for publication in February 2020, 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 2018 SBR and the related President's Budget reflected the following:

FY2018	**Budgetary Resources**	**New Obligations & Upward Adjustments (Total)**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$ 39,140,499.59	$ 29,805,491.70	$ -	$ 29,048,492.22
Expired Unobligated Balances	$ (4,176,657.69)			
Budget of the U.S. Government	35,000,000.00	30,000,000.00	$ -	30,000,000.00
Difference	$ (36,158.10)	$ (194,508.30)	$ -	$ (951,507.78)

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.

Note 16 – Reconciliation of Net Cost to Outlays

The Board has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**26,853,936.69**		**26,853,936.69**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation		(92,767.53)	(92,767.53)
affecting Budget Outlays:			
Accounts receivable	-	21,117.22	21,117.22
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	(168,750.37)	8,187.94	(160,562.43)
Salaries and benefits	(12,137.22)	265,883.07	253,745.85
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	762.00	(29,107.29)	(28,345.29)
Other financing sources			
Federal employee retirement benefit costs	(936,825.72)		(936,825.72)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(1,116,951.31)**	**173,313.41**	**(943,637.90)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	48,710.58	48,710.58
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**-**	**48,710.58**	**48,710.58**
Net Outlays (Calculated Total)	**25,736,985.38**	**222,023.99**	**25,959,009.37**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR Line 4190)			25,959,009.37
Agency Outlays, Net (SBR Line 4210)			**25,959,009.37**