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

OFFICE OF THE
INSPECTOR GENERAL

November 8, 2018

MEMORANDUM TO: Chairman Svinicki

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

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES NUCLEAR REGULATORY COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017 (OIG-19-A-02)

The *Chief Financial Officers Act of 1990*, as amended (*CFO Act*), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained Acuity Consulting, Inc. (Acuity) to conduct this annual audit. Transmitted with this memorandum is Acuity's audit report. Acuity examined NRC'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 NRC and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in 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 2018 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Unmodified opinion.

Compliance with Laws and Regulations

- No instances of noncompliance noted.

OIG Oversight of Acuity's Performance

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored Acuity's audit of NRC's FY 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 NRC's internal controls.
- Reviewing Acuity's audit report to ensure compliance with 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 7, 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:

- NRC's financial statements.
- Effectiveness of NRC's internal control over financial reporting.
- NRC'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 Chief Financial Officer

At the exit conference on November 7, 2018, representatives of the Office of the Chief Financial Officer, OIG, and Acuity discussed the results of the audit.

Comments of the Chief Financial Officer

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

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

Attachment: As stated

cc: Commissioner J. Baran
Commissioner S. Burns
Commissioner A. Caputo
Commissioner D. Wright
M. Doane, OEDO
M. Wylie, OCFO
H. Rasouli, OEDO
J. Jolicoeur, OEDO
J. Bowen, OEDO
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November 7, 2018

ACUITY

Members of AICPA

Audit of the Nuclear Regulatory Commission's Annual Financial Statements

FY 2018 Financial Statements

Independent Auditor's Report

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

In our audits of the fiscal years 2018 and 2017 financial statements of the Nuclear Regulatory Commission (NRC), we found

- NRC'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;
- NRC 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 NRC's financial statements. NRC'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 NRC'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.

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1 The RSI consists of Management's Discussion and Analysis, Deferred Maintenance and Repairs, and the Combining Statement of Budgetary Resources, which are 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.

Management's Responsibility

NRC 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 NRC'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.

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 NRC'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, NRC's financial statements present fairly, in all material respects, NRC'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, NRC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established under FMFIA.

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
NRC'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 NRC'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 NRC'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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to NRC that have a direct effect on the determination of material amounts and disclosures in NRC'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 NRC.

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 NRC. 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, NRC stated it was in agreement with the report. The complete text of NRC's response is reprinted in the Agency Financial Report.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
Alexandria, Virginia
November 7, 2018

CHIEF FINANCIAL OFFICER

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

November 7, 2018

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

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

SUBJECT: AUDIT OF THE FISCAL YEAR 2018 FINANCIAL STATEMENTS

We appreciate the collaborative relationship between the Office of the Inspector General, the auditors, and the Office of the Chief Financial Officer in supporting our continuing effort to improve financial reporting. We have reviewed the Independent Auditor's Report of the Agency's fiscal year 2018 financial statements and are in agreement with it.

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

Nuclear Regulatory Commission's (NRC) Financial Statements for Fiscal Years 2018 and 2017

(Extracted from NRC's Fiscal Year 2018 Agency Financial Report, Pages 34-56)

Financial Statements

Balance Sheet *(IN THOUSANDS)*

As of September 30,	2018	2017
Assets:		
Intragovernmental		
Fund balance with Treasury (Note 2)	**$ 386,894**	$ 365,832
Accounts receivable (Note 3)	**5,680**	7,152
Advances and prepayments	**9,190**	12,752
Total intragovernmental	**401,764**	385,736
Accounts receivable, net (Note 3)	**69,640**	79,874
Property and equipment, net (Note 4)	**65,073**	79,910
Other	**57**	51
Total Assets	**$ 536,534**	$ 545,571
Liabilities:		
Intragovernmental		
Accounts payable	**$ 6,211**	$ 6,759
Other (Note 5)	**5,398**	5,586
Total intragovernmental	**11,609**	12,345
Accounts payable	**25,683**	23,673
Federal employee benefits (Note 6)	**5,259**	5,370
Other (Note 5)	**72,393**	72,571
Total Liabilities	**114,944**	113,959
Net Position:		
Unexpended appropriations	**324,998**	306,831
Cumulative results of operations (Note 8)	**96,592**	124,781
Total Net Position	**421,590**	431,612
Total Liabilities and Net Position	**$ 536,534**	$ 545,571

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

Statement of Net Cost *(IN THOUSANDS)*

For the fiscal years ended September 30,	2018	2017
Nuclear Reactor Safety		
Gross costs	**$ 741,875**	$ 736,794
Less: Earned revenue	**(692,947)**	(710,086)
Total Net Cost of Nuclear Reactor Safety (Note 9)	**48,928**	26,708
Nuclear Materials and Waste Safety		
Gross costs	**213,063**	203,826
Less: Earned revenue	**(81,813)**	(86,168)
Total Net Cost of Nuclear Materials and Waste Safety (Note 9)	**131,250**	117,658
Net Cost of Operations	**$ 180,178**	$ 144,366

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

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

For the fiscal years ended September 30,	2018	2017
Unexpended Appropriations:		
Beginning Balance	**$ 306,831**	$ 297,438
Budgetary Financing Sources:		
Appropriations received	**140,171**	127,480
Appropriations used (Note 11)	**(121,936)**	(118,087)
Other adjustments	**(68)**	–
Total Budgetary Financing Sources	**18,167**	9,393
Total Unexpended Appropriations	**$ 324,998**	$ 306,831
Cumulative Results of Operations:		
Beginning Balance	**$ 124,781**	$ 123,925
Adjustments (Note 8)	**(368)**	6,413
Beginning Balance, as adjusted	**124,413**	130,338
Budgetary Financing Sources:		
Appropriations used (Note 11)	**121,936**	118,087
Non-exchange revenue (Note 11)	**394**	251
Other Financing Sources:		
Imputed financing from costs absorbed by others (Note 11)	**30,421**	20,722
Other	**(394)**	(251)
Total Financing Sources	**152,357**	138,809
Net Cost of Operations	**(180,178)**	(144,366)
Net Change	**(27,821)**	(5,557)
Cumulative Results of Operations	**$ 96,592**	$ 124,781
Net Position	**$ 421,590**	$ 431,612

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

Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal years ended September 30,	2018		2017	
Budgetary Resources:				
Unobligated balance from prior-year budget authority, net	**$**	**49,226**	$	56,460
Appropriations		**921,928**		917,129
Spending authority from offsetting collections		**4,004**		5,626
Total Budgetary Resources	**$**	**975,158**	$	979,215
Memorandum Entry:				
Net adjustments to unobligated balance brought forward Oct 1	**$**	**10,538**	$	14,503
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	**$**	**934,014**	$	940,527
Unobligated balance, end of year:				
Apportioned, unexpired accounts		**39,575**		35,071
Exempt from apportionment, unexpired accounts		**431**		532
Unapportioned, unexpired accounts		**3**		2,570
Unexpired unobligated balance, end of year		**40,009**		38,173
Expired unobligated balance, end of year		**1,135**		515
Unobligated balance, end of year (total)		**41,144**		38,688
Total Status of Budgetary Resources	**$**	**975,158**	$	979,215
Outlays, net:				
Outlays, net		**900,866**		919,534
Distributed offsetting receipts		**(781,825)**		(789,648)
Agency Outlays, Net	**$**	**119,041**	$	129,886

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

Notes to the Financial Statements

(All tables are presented in thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Presentation

These financial statements for FY 2018 and FY 2017 (prior-year) are presented on a comparative basis. They report the financial position and results of operations of the NRC as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. These financial statements were prepared from the books and records of the NRC in conformance with GAAP for Federal entities of the United States and the form and content for entity financial statements specified in OMB Circular A-136, Financial Reporting Requirements. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. Government. These statements are different from the financial reports prepared by the NRC in compliance with OMB directives, which are used to monitor and control the NRC's use of budgetary resources.

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

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

C. Budgets and Budgetary Accounting

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

Congress passed the *Consolidated Appropriations Act, 2018* which funded the NRC's budget at a level of $909.1 million for FY 2018. Not more than $9.5 million of the appropriation may be made available for the costs of the Office of the Commission until September 30, 2019. Additionally, Congress enacted a 2-year appropriation of $12.9 million for the OIG, which was available for obligation by the NRC through September 30, 2019.

In FY 2017, Congress passed the *Consolidated Appropriations Act, 2017* which funded the NRC's budget at a level of $905 million for FY 2017. Not more than $7.5 million of the appropriation may be made available for the costs of the Office of the Commission until September 30, 2018. Additionally, Congress enacted a 2-year appropriation of $12.1 million for the OIG, which is available for obligation by the NRC through September 30, 2018.

D. Basis of Accounting

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

E. Revenues and Other Financing Sources

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

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

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

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

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

F. Fund Balance with Treasury

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

G. Accounts Receivable

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

H. Non-Entity Assets

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

I. Property and Equipment

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

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

J. Accounts Payable

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

K. Liabilities Not Covered by Budgetary Resources

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

Liabilities represent the amount of monies or other resources that are likely to be paid by the NRC as the result of a transaction or event that has already occurred. The NRC cannot pay liabilities without an appropriation. Liabilities for which an appropriation has not been enacted are classified as "Liabilities Not Covered by Budgetary Resources" and fall into the following three categories:

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

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

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

L. Contingencies

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

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

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

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

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent that current or prior-year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

N. Retirement Plans

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

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

The NRC employees make mandatory contributions to their retirement plans through payroll deductions as required by law. For employees belonging to FERS and receiving an appointment before January 1, 2013, the NRC withheld 0.8 percent of base pay earnings and made an employer contribution of 13.7 percent in 2018 and 13.7 percent in 2017. In accordance with *Public Law 112-96, Section 5001 of the Middle Class Tax Relief and Job Creation Act of 2012*, employees hired after January 1, 2013, as Federal Employees Retirement System-Revised Annuity Employees must pay 3.1 percent of their salary to retirement contributions, with 11.9 percent in 2018 and 11.9 percent in 2017 for employer matching contribution. For employees hired after January 1, 2014, as Federal Employees Retirement System-Revised Annuity Employees must pay 4.4 percent of their salary to retirement contributions with 11.9 percent in 2018 and 11.9 percent in 2017 for employer matching contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, the NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2018 and FY 2017.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, but it is subject to the maximum contribution of $18,500 in 2018 and $18,000 in 2017. For employees participating in FERS, the NRC automatically contributes 1 percent of base pay to the employee's account and matches contributions up to an additional 4 percent. For employees participating in CSRS, the NRC does not match the contribution. The sum of the employees' and the NRC's contributions is transferred to the Federal Retirement Thrift Investment Board.

O. Leases

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

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

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

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

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

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

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

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

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

P. Pricing Policy

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

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

Q. Net Position

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

R. Use of Management Estimates

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

S. Transfers of Authority

In prior years, the NRC was a party to non-expenditure transfers of funds, as a receiving entity, from the U.S. Agency for International Development (USAID). The purpose of the funding authority transferred were for the international development of nuclear safety and regulatory authorities in other countries. Transfers are legal delegations by one agency of its authority to obligate and outlay funds to another agency. The NRC completed its participation in this project and had residual unobligated funds of $68,076.04 remaining from these transfers. The remaining unobligated funds were rescinded in FY 2018.

T. Statement of Net Cost

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

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

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

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

Note 2 – Fund Balance with Treasury

As of September 30,	2018	2017
Fund Balances:		
Appropriated funds	**$ 386,433**	$ 365,226
Nuclear Waste Fund	**461**	606
Other fund types	**–**	–
Total	**$ 386,894**	$ 365,832
Status of Fund Balance with Treasury:		
Unobligated balance		
Available - Appropriated funds	**$ 40,006**	$ 35,603
Unavailable		
Unapportioned, unexpired accounts	**3**	2,570
Expired accounts	**1,135**	515
Obligated balance not yet disbursed	**345,750**	327,144
Total	**$ 386,894**	$ 365,832

The Fund Balance with Treasury consists of the unobligated and obligated budgetary account balances, to including NWF activity. The NWF unobligated balance was $0.4 million and $0.5 million as of September 30, 2018, and 2017, respectively.

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

Note 3 – Accounts Receivable

As of September 30,	2018		2017	
Intragovernmental:				
Fee receivables and reimbursements	**$**	**5,680**	$	7,152
Receivables with the Public:				
Materials and facilities fees-billed	**$**	**6,150**	$	10,759
Materials and facilities fees-unbilled		**65,508**		72,494
Other		**790**		475
Total Receivables with the Public		**72,448**		83,728
Less: Allowance for uncollectible accounts		**(2,808)**		(3,854)
Total Receivables with the Public, Net	**$**	**69,640**	$	79,874
Total Accounts Receivable	**$**	**78,128**	$	90,880
Less: Allowance for uncollectible accounts		**(2,808)**		(3,854)
Total Accounts Receivable, Net	**$**	**75,320**	$	87,026

Note 4 – Property and Equipment, Net

As of September 30,						2018		2017	
Fixed Assets Class	**Service Years**	**Acquisition Value**		**Accumulated Depreciation and Amortization**		**Net Book Value**		Net Book Value	
Equipment	5-8	$	8,995	$	(8,033)	**$**	**962**	$	1,181
Leased equipment	5-8		1,318		(1,213)		**105**		402
IT software	5		78,715		(60,323)		**18,392**		6,509
IT software under development	–		–		–		**–**		14,911
Leasehold improvements	20		84,253		(39,021)		**45,232**		49,246
Leasehold improvements in progress	–		382		–		**382**		7,661
Total		$	173,663	$	(108,590)	**$**	**65,073**	$	79,910

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

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

Note 5 – Other Liabilities

As of September 30,		2018		2017
Intragovernmental:				
Liability to the U.S. Treasury General Fund for misc. receipts	**$**	**30**	$	25
Liability for advances from other agencies		**18**		4
Accrued workers' compensation		**1,045**		1,174
Accrued unemployment compensation		**–**		27
Employee benefit contributions		**4,305**		4,356
Total Intragovernmental Other Liabilities	**$**	**5,398**	$	5,586
Other Liabilities:				
Accrued annual leave	**$**	**42,476**	$	41,989
Accrued salaries and benefits		**15,598**		15,886
Employer Contributions & Payroll Taxes Payable		**688**		700
Contract holdbacks, advances, capital lease liability, and other		**2,495**		4,419
Contingent liabilities		**–**		–
Grants payable		**11,136**		9,577
Total Other Liabilities	**$**	**72,393**	$	72,571
Total Intragovernmental and Other Liabilities	**$**	**77,791**	$	78,157

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

Note 6 – Liabilities Not Covered by Budgetary Resources

As of September 30,		2018		2017
Intragovernmental:				
FECA paid by DOL	**$**	**1,045**	$	1,174
Accrued unemployment compensation		**-**		27
Federal Employee Benefits:				
Future FECA		**5,259**		5,370
Other:				
Accrued annual leave		**42,476**		41,989
Contingent liabilities		**–**		–
Total Liabilities Not Covered by Budgetary Resources		**48,780**		48,560
Total Liabilities Covered by Budgetary Resources		**66,164**		65,399
Total Liabilities	**$**	**114,944**	$	113,959

Liabilities Not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2018, and 2017. These liabilities are not funded from current or prior-year appropriations and assessments, but rather they should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

The projected annual benefit payments for FECA are discounted to present value. For FY 2018, projected annual payments were discounted to present value based on the OMB's interest rate assumptions, which were interpolated to reflect the average duration in years for income payments and medical payments. The interest rate assumptions used for FY 2018 discounting were 2.716 percent in year 1 and year 2 for wage benefits, and 2.379 percent in year 1 and year 2 for medical benefits.

Note 7 – Leases

As of September 30,	2018	2017
Assets Under Capital Leases:		
Copiers and booklet maker	**$ 1,318**	$ 1,318
Accumulated depreciation	**(1,213)**	(916)
Net Assets Under Capital Leases	**$ 105**	$ 402

Future Lease Payments Due:

As of September 30,				2018	2017
	Fiscal Year	**Capital**	**Operating**		
	2018	$ –	$ –	**$ –**	36,450
	2019	25	31,244	**31,269**	25,514
	2020	75	37,847	**37,922**	31,894
	2021	-	36,469	**36,469**	276,540
	2022 and thereafter	–	284,779	**284,779**	-
Total Lease Liability		100	390,339	**390,439**	370,398
Subtract: Imputed Interest		-	–	**-**	(5)
Total Future Lease Payments		$ 100	$ 390,339	**$ 390,439**	$ 370,393

The Capital Lease Liability of $100 thousand for reproduction equipment is included in Other Liabilities (Note 5). For Future Lease Payments, the NRC calculates the Capital Lease Liability and subtracts the imputed interest to arrive at the Total Future Lease Payments. The reproduction equipment is generally depreciated over 5 years using the straight-line method with no salvage value.

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

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

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

Note 8 – Cumulative Results of Operations

As of September 30,	2018		2017	
Liabilities not covered by budgetary resources (Note 6)	**$**	**(48,780)**	$	(48,560)
Investment in property and equipment, net (Note 4)		**65,073**		79,910
Contributions from foreign cooperative research agreements		**5,245**		5,878
Nuclear Waste Fund		**461**		606
Office of the Commission (financed by fees)		**–**		–
Accounts receivable - fees		**74,256**		86,503
Other		**337**		444
Cumulative Results of Operations	**$**	**96,592**	$	124,781

The beginning balances of Cumulative Results of Operations were adjusted for leasehold improvement corrections resulting in a decrease of $0.4 million in FY 2018 and an increase of $6.4 million for FY 2017.

Note 9 – Statement of Net Cost

For the fiscal years ended September 30,	2018		2017	
Nuclear Reactor Safety:				
Intragovernmental gross costs	**$**	**210,872**	$	207,662
Less: Intragovernmental earned revenue		**(48,845)**		(48,809)
Intragovernmental net costs		**162,027**		158,853
Gross costs with the public		**531,003**		529,132
Less: Earned revenues from the public		**(644,102)**		(661,277)
Net costs with the public		**(113,099)**		(132,145)
Total Net Cost of Nuclear Reactor Safety	**$**	**48,928**	$	26,708
Nuclear Materials and Waste Safety:				
Intragovernmental gross costs	**$**	**59,148**	$	54,366
Less: Intragovernmental earned revenue		**(6,180)**		(5,782)
Intragovernmental net costs		**52,968**		48,584
Gross costs with the public		**153,915**		149,460
Less: Earned revenues from the public		**(75,633)**		(80,386)
Net costs with the public		**78,282**		69,074
Total Net Cost of Nuclear Materials and Waste Safety	**$**	**131,250**	$	117,658

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

Note 10 – Exchange Revenues

For the fiscal years ended September 30,	2018		2017	
Fees for licensing, inspection, and other services	**$**	**769,185**	$	790,595
Revenue from reimbursable work		**5,574**		5,659
Total Exchange Revenues	**$**	**774,759**	$	796,254

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

Note 11 – Financing Sources Other Than Exchange Revenue

For the fiscal years ended September 30,	2018		2017	
Appropriations Used				
Collections are used to reduce the fiscal year's appropriations:				
Funds consumed	**$**	**903,906**	$	908,615
Less: Collection of fees assessed		**(781,825)**		(789,648)
Less: Nuclear Waste Fund Expense		**(145)**		(880)
Less: Office of the Commission (financed by fees)		**–**		–
Total Appropriations Used	**$**	**121,936**	$	118,087

Funds consumed include $33.0 million and $36.5 million through September 30, 2018, and 2017, respectively, of available funds from prior years.

For the fiscal years ended September 30,	2018		2017	
Non-Exchange Revenue				
Civil penalties	**$**	**282**	$	182
Miscellaneous receipts		**112**		69
Non-Exchange Revenue		**394**		251
Contra-Revenue		**(394)**		(251)
Total Non-Exchange Revenue, Net of Funds Returned to the U.S. Treasury General Fund	**$**	**–**	$	–

For the fiscal years ended September 30,	2018		2017	
Imputed Financing				
Civil Service Retirement System	**$**	**4,391**	$	4,345
Federal Employees Retirement System		**6,367**		643
Federal Employee Health Benefit		**19,582**		15,652
Federal Employee Group Life Insurance		**81**		82
Judgments/Awards		**–**		–
Total Imputed Financing	**$**	**30,421**	$	20,722

Note 12 – Total Obligations Incurred

For the fiscal years ended September 30,	2018	2017
Direct Obligations		
Category A	$ 927,959	$ 934,421
Exempt from Apportionment	101	881
Total Direct Obligations	928,060	935,302
Reimbursable Obligations	5,954	5,225
Total Obligations Incurred	$ 934,014	$ 940,527

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

Note 13 – Undelivered Orders at the End of the Period

For the fiscal years ended September 30,	2018	2017
Undelivered Orders - Unpaid		
Salaries and Expenses	$ 283,929	$ 267,698
Inspector General	1,576	846
Nuclear Waste Fund	30	–
Total Undelivered Orders - Unpaid	$ 285,535	$ 268,544
Undelivered Orders - Paid		
Salaries and Expenses	$ 8,738	$ 12,584
Inspector General	619	168
Nuclear Waste Fund	–	–
Total Undelivered Orders - Paid	9,357	12,752
Total Undelivered Orders	$ 294,892	$ 281,296

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

Note 14 – Nuclear Waste Fund

For FY 2018 and FY 2017, the NRC's budget did not include funds from the NWF. The funding provided to the NRC before FY 2014 and carried forward to subsequent years was for the purpose of performing activities associated with the U.S. Department of Energy's (DOE) application for a high-level waste repository at Yucca Mountain, NV.

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

In 1982, Congress passed the *Nuclear Waste Policy Act of 1982* (Public Law 97-425) establishing the NWF to be administered by the DOE (42 U.S.C. 10222). For the NRC, the NWF transfer is a source of financing from other than non-Federal sources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the

Treasury has no separate fund symbol for the NWF under the NRC's agency location code. The receipt and expenditure of NWF money is reported to the Treasury under the NRC's primary Salaries and Expenses fund (X0200).

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

For the fiscal years ended September 30,	2018	2017
Appropriations Received	**$ -**	$ -
Expended Appropriations	**$ 145**	$ 880
Obligations Incurred	**$ 101**	$ 881
Unobligated Balances (includes recoveries of prior-year obligations)	**$ 431**	$ 532

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

SFFAS 7, "Accounting for Revenue and Other Financing Sources" and OMB Circular A-136 require the NRC to reconcile the budgetary resources reported on the SBR to the actual budgetary resources presented in the President's Budget and explain any material differences. The NRC does not have any material differences between the budgetary resources reported on the SBR for FY 2018 and the FY 2017 actuals in the proposed President's Budget for FY 2018. The reconciliation was based on actual numbers for FY 2018 because the Budget of the United States (also known as the President's Budget) was not published at the time that these financial statements were issued. The FY 2018 actual budgetary resources numbers will be available in the FY 2020 President's Budget which is expected to be published in 2019, and will be available on the OMB Web site http://www.whitehouse.gov/omb/budget/ and through the U.S. Government Publishing Office.

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

For the fiscal years ended September 30,	2018	2017
Budgetary Resources Obligated:		
Obligations incurred (Note 12)	**$ 934,014**	$ 940,527
Less: Spending authority from offsetting coll. and recoveries	**(14,542)**	(20,459)
Less: Distributed offsetting receipts, current year	**(781,825)**	(789,648)
Less: Distributed offsetting receipts, prior year	**–**	–
Net Obligations	**137,647**	130,420
Other Resources:		
Imputed financing from costs absorbed by others	**30,421**	20,722
Non-Exchange Revenue	**394**	251
Funds returned to U.S. Treasury General Fund	**(394)**	(251)
Net Other Resources Used to Finance Activities	**30,421**	20,722
Total Resources Used to Finance Activities	**168,068**	151,142
Resources to Finance Items Not Part of Net Cost of Operations	**(17,701)**	(23,375)
Total Resources Used to Finance Net Cost of Operations	**150,367**	127,767
Components of the Net Cost of Operations that will not require or generate resources in the current period	**29,811**	16,599
Net Cost of Operations	**$ 180,178**	$ 144,366

Distributed offsetting receipts of $781.8 million were collected and transferred to offset the FY 2018 NRC appropriations through September 30, 2018. Upon transfer, the Treasury issued a negative warrant for the amount of the transfer to reduce the NRC appropriations.

Note 17 – Contingencies

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

Probable Likelihood of an Adverse Outcome

As of September 30, 2018 the NRC was not involved in any cases in which the likelihood of loss is probable.

Reasonably Possible Likelihood of an Adverse Outcome

As of September 30, 2018, the NRC was not involved in any cases with a possible likelihood of an adverse outcome.

Note 18 – Net Adjustments to Unobligated Balance Brought Forward October 1

There were no material adjustments to correct the unobligated balance brought forward October 1 for fiscal year 2018.

Required Supplementary Information

Deferred Maintenance and Repairs for General Property, Plant, and Equipment

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

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

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

The NRC evaluated DM&R activities for leased facilities, the multiple components of the agency IT infrastructure, and individual capital asset purchases with a cost equal to or greater than $50,000. The NRC did not include non-capitalized property, plant, and equipment with a cost of less than $50,000, which is deemed immaterial.

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

For the NRC leased facilities and capital equipment purchases, the NRC typically does not have any DM&R. The NRC had no DM&R for facilities, other structures, and capital equipment as of September 30, 2018, and 2017.

Defining and Implementing Maintenance and Repair Policies in Practice

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

For the regional offices, the building management (lessor) is responsible for performing all required periodic maintenance to keep the systems and buildings in a good state of repair. Generally, the regional leases contain the fixed assets, including equipment purchased to support the operations of the agency's leased space, such as diesel generators and chillers for the Incident Response Center, the local area network, and power cooling. Equipment requiring repair results in a service repair call. For those instances where equipment is purchased to support the NRC regional operations, maintenance contracts are put in place to provide periodic service and maintenance on the equipment. When equipment reaches the end of its useful life, it is generally replaced with like-kind or with upgraded equipment. For any type of an emergent failure, the NRC would request additional funding, as needed, for repairs or replacement of equipment.

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

Ranking and Prioritization of Maintenance and Repair Activities

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

Factors Considered in Determining Acceptable Condition

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

Deferred Maintenance and Repairs for Information Technology Infrastructure and Systems

As of September 30, 2018, the NRC did not have any DM&R for IT Infrastructure and Systems for FY 2018. The NRC IT infrastructure is a network of multiple equipment, software, and service components, taken as a whole, which provides the critical communication network that allows the NRC to accomplish its mission. The NRC IT infrastructure encompasses the following:

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

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

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

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

Defining and Implementing Maintenance and Repair Policies in Practice

The NRC's IT infrastructure operations and maintenance (O&M) and development, modernization and enhancement (DME) activities are performed by various vendors under several different contracts. For example, the enterprise-wide IT Infrastructure and Support Services (ITISS) contract supports data center and network operations, and the Global Infrastructure Development Acquisition (GLINDA) End User Computing Services Blanket Purchase Agreement (BPA) Call supports the Agency's personal computing requirements. As a result of the FY2017 ITISS restructuring, the government became the owner of the Agency's hardware and software assets. OCIO, in its management of IT hardware, plans refresh dates based on a number of criteria (type of hardware, manufacturer end-of -support, current condition, etc.); refreshes are then prioritized and implemented based on balancing those requirements and the available contract and budget resources.

Ranking and Prioritization of Maintenance and Repair Activities

The NRC program managers determine the requirements for ranking, scheduling, and performing IT infrastructure M&R activities and include them in the contractor statement of work. For the critical ITISS contract, the main ranking factor is the age of the asset (e.g., desktop, laptop, printer, BlackBerry), followed by cost and budget constraints. However, when applicable, personnel safety is considered and is the highest priority.

Factors Considered in Determining Acceptable Condition

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

Combining Statement of Budgetary Resources *(IN THOUSANDS)*

For the fiscal year ended September 30, 2018	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources:				
Unobligated balance from prior-year budget authority, net	$ 45,684	$ 3,542	$ –	**$ 49,226**
Appropriations	909,069	12,859	–	**921,928**
Spending authority from offsetting collections	4,004	–	–	**4,004**
Total Budgetary Resources	$ 958,757	$ 16,401	$ –	**$ 975,158**
Memorandum Entry:				
Net adjustments to unobligated balance brought forward October 1	$ 9,494	$ 204	$ _	**$ 9,698**
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	$ 920,576	$ 13,438	$ –	**$ 934,014**
Unobligated balance, end of period:				
Apportioned, unexpired accounts	37,645	1,930	–	**39,575**
Exempt from apportionment, unexpired accounts	431	–	–	**431**
Unapportioned, unexpired accounts	-	3	–	**3**
Unexpired unobligated balance, end of year	38,076	1,933	–	**40,009**
Expired unobligated balance, end of year	105	1,030	–	**1,135**
Unobligated balance, end of year	38,181	2,963	–	**41,144**
Total Status of Budgetary Resources	$ 958,757	$ 16,401	$ –	**$ 975,158**
Outlays Net:				
Outlays, net	888,324	12,542	–	**900,866**
Distributed offsetting receipts	–	–	(781,825)	**(781,825)**
Agency Outlays, Net	$ 888,324	$ 12,542	$(781,825)	**$ 119,041**

For the fiscal year ended September 30, 2017	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
Budgetary Resources:				
Unobligated balance from prior-year budget authority, net	$ 53,239	$ 3,221	$ –	**$ 56,460**
Appropriations	905,000	12,129	–	**917,129**
Spending authority from offsetting collections	5,626	–	–	**5,626**
Total Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Memorandum Entry:				
Net adjustments to unobligated balance brought forward October 1	$ 14,283	$ 220	$ _	**$ 14,503**
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 12)	$ 928,346	$ 12,181	$ –	**$ 940,527**
Unobligated balance, end of period:				
Apportioned, unexpired accounts	32,348	2,723	–	**35,071**
Exempt from apportionment, unexpired accounts	532	–	–	**532**
Unapportioned, unexpired accounts	2,570	-	–	**2,570**
Unexpired unobligated balance, end of year	35,450	2,723	–	**38,173**
Expired unobligated balance, end of year	69	446	–	**515**
Unobligated balance, end of year	35,519	3,169	–	**38,688**
Total Status of Budgetary Resources	$ 963,865	$ 15,350	$ –	**$ 979,215**
Outlays Net:				
Outlays, net	907,631	11,903	–	**919,534**
Distributed offsetting receipts	–	–	(789,648)	**(789,648)**
Agency Outlays, Net	$ 907,631	$ 11,903	$(789,648)	**$ 129,886**