OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 13, 2009

TO: Julius Genachowski, Chairman

FROM: David L. Hunt, Acting Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2009

In accordance with the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of KPMG LLP to audit the fiscal year 2009 financial statements of the Federal Communications Commission (FCC) in accordance with generally accepted government auditing standards (GAGAS).

KPMG LLP's reports include: (1) an opinion on FCC's financial statements; (2) a report on internal control over financial reporting; and (3) a report on compliance and other matters. In summary, KPMG LLP found that:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There are no material weaknesses in internal control.
- There are two significant deficiencies noted. The first significant deficiency is with the FCC's financial reporting process. The second is in the area of the information technology controls.
- There was one instance of noncompliance with laws and regulations related to the Federal Managers' Financial Integrity Act. Specifically, the FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set within the OMB Circular A-127 guidance for complying with section 4 of FMFIA.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of it's representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express an opinion and we do not express an opinion on the FCC's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. KPMG LLP is wholly responsible for the attached report dated November 12, 2009 and the conclusions expressed therein.

However, our review, while still ongoing, disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

David L. Hunt
Acting Inspector General

cc: Managing Director
Chief of Staff
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the accompanying consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. These consolidated financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Communications Commission as of September 30, 2009, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Message from the Chairman and Other Accompanying Information sections are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2009, on our consideration of the FCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

November 12, 2009

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009 and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and have issued our report thereon dated November 12, 2009. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FCC is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the FCC's internal control over financial reporting by obtaining an understanding of the FCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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.

In our fiscal year 2009 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, described in Exhibit I. Exhibit II presents the status of prior years' findings and recommendations.

The FCC's response to the findings identified in our audit are presented in the Agency Financial Report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2009.

This report is intended solely for the information and use of the FCC's management, the FCC's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009

SIGNIFICANT DEFICIENCIES

Financial Reporting Process

The FCC consolidated financial statements present the financial results of the following reporting components: The Commission (FCC), the Universal Service Fund (USF), the Telecommunications Relay Services Fund (TRS), and the North American Numbering Plan (NANP). The FCC has oversight responsibilities over the other components. USF, TRS, and NANP are administered by other organizations independent of the FCC. Each component entity is responsible for preparing its trial balance. The FCC's Office of the Managing Director, Division of Financial Operations, is responsible for reviewing the component entities' trial balances before including that financial data in the FCC consolidated financial statements.

During our fiscal year 2009 internal control and substantive test work procedures, we observed that the FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set forth within OMB Circular A-127. These standards require that the consolidated financial statements be prepared from an accounting system that is an integral part of a financial management system containing sufficient structure, effective internal control and reliable data. Many of the FCC's significant transactions are tracked on Excel spreadsheets and recorded into the general ledger at a summary level. Significant examples of this include (all amounts in thousands as of 6/30/09):

- Spectrum Auction Activities for FCC – $16,790,302
- Investment Transactions for USF and TRS – $5,760,304
- Deferred Revenues for FCC – $463,175
- Accounts Payable Transactions for USF – $44,178
- Loans Transactions for FCC – $112,711
- Budgetary Transactions/Entities for FCC, USF and TRS – $6,432,027
- Property Transactions for FCC – $31,248
- On-Top Financial Statement Adjustments **-** $1,195,413
- Accounts Receivable maintained outside of the AR Subsidiary Ledger for USF – $352,843

Inadequate financial system integration and the continued use of manual reporting processes increases the risk of potential errors in the consolidated financial statements going undetected by management, and results in non-compliance with OMB guidance.

Recommendations

1. Implement a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transactional basis and complies with the requirements set forth in OMB Circular A-127. The system should be flexible to accommodate new accounting requirements issued by FASAB, OMB and Treasury. **(Updated)**

2. Develop a standard set of transaction codes to process all routine transactions and to allow automated, timely, and accurate recording for all recurring entries that are currently entered manually. **(Updated)**
3. Develop an electronic integration between the subsidiary systems and the FCC financial management system to enable FCC component entities to process accounting transactions or report financial data efficiently and effectively. **(Updated)**

Information Technology Controls

As reported in FY 2008, the FCC needs to improve its entity-wide security program. An effective security program embodies the organization's internal control responsibilities with respect to securing its IT infrastructure and services. OMB has defined standards within OMB, Circular No. A-123, *Management's Responsibility for Internal Control*, related to control environment, risk assessment, monitoring, information and communication, and internal control activities. For purposes of financial reporting, management is responsible for developing and maintaining internal control activities that comply with OMB standards to ensure reliability of financial reporting.

We identified deficiencies in the FCC's control environment, risk assessment, control activities, and monitoring as it relates to securing FCC's information technology infrastructure. The application of IT is pervasive throughout the FCC and as a result these deficiencies may impact the FCC's ability to comply with OMB's internal control objectives for financial reporting. We have previously reported these deficiencies to FCC management in more detail. Each of the sections below summarizes the reported control deficiencies.

Control Environment

OMB requires management to clearly identify areas of authority and responsibility and appropriately delegate the authority and responsibility throughout the agency. We noted that FCC management had not appointed a Senior Agency Information Security Officer (SAISO) dedicated to planning and overseeing the execution of the FCC's Security Program. In addition, we noted that the FCC had not formally determined and clearly defined its responsibilities with respect to oversight of the USAC security program. Currently, the FCC does not consistently exercise and document oversight of USAC's IT Security program although USAC collects and maintains data on behalf of the FCC.

Risk Assessment

OMB requires management to identify internal and external risks that may prevent the organization from meeting its objectives. We noted that the FCC had not conducted risk assessments for its information systems in accordance with the guidance from National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, Risk Management Guide for Information Technology Systems, although the FCC's risk assessment reports cite NIST SP 800-30 as guidance. Specifically, FCC's risk assessment reports do not include steps to identify threats and determine risks. In addition, we noted that a number of risk assessments for components of the FCC's general support system were outdated. We also noted that risk assessments for two applications that authenticate users outside of the FCC, did not map to the required assurance levels in OMB Memorandum 04-04 and the required e-authentication controls in NIST SP 800-63, Electronic Authentication Guideline.

Control Activities

OMB requires internal control to be in place over information systems in the form of general and application control. General control applies to all information systems such as servers, the network and end-user environments, and includes agency-wide security program planning, management, control over data center operations, and system software acquisition and maintenance. Due to the rapid changes in information technology, controls must also adjust to remain effective. Required control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples of such mechanisms include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets; proper authorization; and appropriate documentation and access to that documentation. Based on our procedures performed we noted the following deficiencies in FCC's general control activities related to the FCC security program, access controls, and change controls:

Security Program

Procedures for completing a certification and accreditation (C&A) package were in draft form and did not contain detailed requirements and procedures for creating a C&A package in accordance with NIST guidance.

System security plans for several systems did not document controls that mapped to the recommended NIST SP 800-53, Recommended Security Controls for Federal Information Systems, minimum baseline controls.

An independent certification agent did not perform security assessments of FCC management and operational controls to support the C&A package of FCC's major applications and general support systems.

One system was placed in operation without C&A and the general support system had not been certified and accredited within the last three years.

Access Controls

The FCC's controls to restrict physical and logical access to FCC systems had a number of deficiencies. One major application lacked system documentation. Controls for limiting physical access to computer rooms were not sufficiently formalized. The FCC's user account management controls were not operating effectively to prevent logical access from being granted to users who should not have access and to remove access from users who no longer needed it. The resolution of identified vulnerabilities was not documented. Finally, the FCC's password policies were inconsistently applied.

Change Control

Access of developers to production was not properly restricted.

Not all application changes were tested and approved before their migration to production and the FCC could not provide documentation on all configuration management changes.

Monitoring

OMB requires that monitoring of the effectiveness of internal control should occur in the normal course of business. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. We noted that FCC management did not perform annual security assessment testing of operational and management controls to support its annual Federal Information Security Management Act of 2002 (FISMA) report to OMB and to satisfy FISMA's ongoing monitoring requirements.

OMB also requires that deficiencies found in internal control be reported to the appropriate personnel and management responsible for that area. Deficiencies identified, whether through internal review or by an external audit, should be evaluated and corrected. A systematic process should be in place for addressing deficiencies. We noted that the FCC did not appear to be using its Plans of Action and Milestones (POA&Ms) as an effective management tool for overseeing the remediation of security deficiencies. In addition, we noted that the FCC POA&Ms did not prioritize IT security deficiencies to help ensure significant IT security deficiencies are addressed in a timely manner and receive appropriate resources. Also, we noted that deficiencies documented in POA&MS were not addressed in a timely manner, and that the FCC did not document adequate rationale for delays or changes in milestones. Lastly, we noted that deficiencies in system-level POA&Ms were not documented consistent with OMB and NIST guidance.

Recommendations

The FCC strengthen its security program oversight and planning by:

4. appointing a Senior Agency Information Security Officer (SAISO) dedicated to planning, implementing and monitoring the Commission's security program; **(Updated)**
5. formally documenting its responsibilities for directing and overseeing the information security programs for information systems that collect and maintain FCC data, but are not operated by the FCC, to ensure they are administered consistent with all relevant FCC, NIST and OMB requirements and instructions; **(Updated)**
6. revising and finalizing procedures for completing a C&A package in accordance with NIST guidance. Policies and procedures should require: that security assessment testing cover a representative subset of controls and be performed and directed by personnel with sufficient operational independence, and that the FCC documents system security plans in detail sufficient to plan system security controls for general support systems and major applications that are identical or equivalent to the NIST SP 800-53 minimum baseline controls; and **(Updated)**
7. certifying and accrediting relevant FCC systems. **(Updated)**

The FCC strengthen its approach to performing risk assessments by:

8. implementing procedures for performing risk assessments that help ensure that risk assessments are performed in accordance with NIST guidance and consider a full range of significant risks, and that control recommendations from risk assessments are used to create or update system security plans; **(New)**
9. updating risk assessments at least every three years; **(New)**
10. documenting e-authentication policies and procedures for ensuring FCC's compliance with OMB Memorandum 04-04, E-Authentication Guidance for Federal Agencies; and **(New)**
11. performing e-authentication risk assessments and updating system security plans to define for each e-government application the relevant authentication level and the required level of e-authentication controls to implement. **(New)**

The FCC strengthen its access controls by:

12. documenting the roles and permissions used within major applications; **(New)**
13. granting individuals computer room access only after management approval; **(New)**
14. granting access to FCC systems only after approval by management; **(Updated)**
15. limiting logical access to FCC systems for newly hired employees and contractors pending a favorable result from a background check; **(New)**

16. justifying the access of users with administrator or other elevated access; **(New)**
17. requiring that all user access be reviewed and recertified by management and promptly revoking access for those users who are found to no longer need access or whose access is not recertified; **(Updated)**
18. documenting and implementing procedures for documenting and tracking vulnerability remediation, and **(Updated)**
19. reviewing the scope and applicability of the FCC's password policies, documenting any exceptions to FCC password policies, and wherever applicable, ensuring that password settings are consistent with the FCC's policies. **(Updated)**

The FCC strengthen its change and configuration management controls by:

20. restricting developers' access to the production environment; **(Updated)**
21. revising its draft change management policy to include a requirement that changes be tested before being moved into production, and **(Updated)**
22. implementing change control and configuration management procedures, including procedures for approving changes prior to implementation into production and procedures for maintaining records of changes to facilitate management's review of changes made to FCC systems. **(Updated)**

The FCC strengthen its monitoring controls by:

23. documenting and implementing procedures that ensure that at least annually, the FCC performs security assessment testing of a subset of controls to monitor the controls' effectiveness, with all controls being assessed at least once during the three-year authorization cycle; **(New)**
24. documenting System-level POA&Ms consistent with OMB and NIST guidance, and **(New)**
25. documenting and implementing procedures for the creation, maintenance, and review of POA&Ms, including procedures to help ensure that the FCC documents, prioritizes, tracks and reviews at least quarterly all security weaknesses identified by external and internal reviews. Quarterly reviews should include reporting to the CIO. The rationale for adjusting milestones should be documented. **(New)**

EXHIBIT II

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of FCC's corrective actions with respect to the findings and recommendations included in the prior years' report on FCC's internal control over financial reporting dated November 13, 2008. The following table provides our assessment of the progress the FCC has made through September 30, 2009 in correcting the material weakness and significant deficiencies identified in the FY 2008 Independent Auditors' Report.

Material Weakness			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
I. USF Budgetary Accounts			
1	Component Entities	Focus management's efforts on performing periodic financial analysis, including fluctuation and trend analysis, at a minimum, on a quarterly basis. Enhancement to the fluctuation analysis should include developing expectations that are directly attributed to financial trends, operational trends or both. In addition, the trends should be based on dollar value, percentage changes or both over a period of time. Each expectation that is not met should be researched and results collaborated by data. Analytical tools that could be used are ratio analysis and trend analysis as well as predictive techniques such as calculation of an expected balance.	Closed
2	Component Entities	Assess the need for more human capital resources assigned to the financial statement preparation and analysis process. The assessment should be conducted as soon as practical. In addition, a cross-training program should be implemented by providing key financial management personnel training related to federal government accounting standards and reporting requirements. Such training should be continuous to ensure financial management staff understands the current requirements.	Closed
Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
I. Financial Reporting Process			
3	FCC Entity	Implement a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transaction basis and complies with the requirements set forth in regulations such as OMB Circular A-127. Management should set up standard transaction codes to the greatest extent possible in the new financial management system to process all routine transactions and to allow automated, timely, and accurate recording for all recurring entries that are currently entered manually. In addition,	Updated – Reported in current year recommendation # 1-3

		electronic integration with the subsidiary systems and with FCC financial management system will enable FCC entities to process accounting transactions or report financial data efficiently and effectively. Subsidiary details should be available at the transaction level so amounts reported in the financial statements are adequately supported and can be easily validated. The system software should be flexible to accommodate new accounting requirements issued by FASAB, OMB, and Treasury	
4	FCC Entity	Formalize and periodically update policies and procedures to a) provide guidance to management and staff in recording both recurring and unique transactions, including budgetary accounts, and b) strengthen internal controls for financial reporting to enhance the timeliness of financial statement preparation and to minimize the risk of preparing inaccurate financials.	Closed
II. Allowance for Loss on Accounts Receivable (ALAR) Methodology			
5	FCC Entity and Component Entities	Develop, formalize and implement the ALAR policies and procedures to reflect an ALAR methodology that includes the following elements: • Performance of a historical trend analysis based on both type and age of receivables to validate the ALAR reserve. If aging trend analysis is not appropriate, management should include the rationale for excluding the aging analysis as supported by historical data in its policy. • Consideration and documentation of other factors that could affect the historical trend in the future and how that assessment affects the ALAR methodology. Such factors include the overall economy of the communications industry, and the credit quality of carriers. Once these factors are considered, management should establish a set of rates for the ALAR reserve by type and age, including consideration for anticipated recoveries. • Development of management's expectations for the trend analysis which includes setting the criteria for variances that are considered significant. Each significant variance should be researched and resolved. The resolution should be supported by collaborating data and maintained by management for review. • Review of the ALAR on an item by item basis when the amounts owed by individual carriers are material and consider their impact on the overall ALAR separately. • Performance of fluctuation analyses of amounts reported by types and ages of the receivables after the calculation is completed. If an aging fluctuation analysis is not appropriate, management should include an explanation of the rationale for excluding aging analysis in its policy.	Closed

6	FCC Entity and Component Entities	Periodically assess the adequacy of the ALAR by comparing the recorded amounts to the estimated amounts. Any adjustments to the current methodology should be documented and supported by data or analysis. The estimated collection and recovery amounts are subject to risk that actual amounts collected may be different than management's estimates. When this occurs, management should further analyze the drivers or factors for such an unexpected occurrence to ensure the validity and reasonableness of the current methodology.	Closed
III. Information Technology Control Deficiencies			
7	FCC Entity	Strengthen its security administration; develop new policies when necessary; renew security policies and procedures before they expire; recertify and accredit systems before accreditation expires and address security vulnerabilities noted in FCC's technology infrastructure.	Updated – Reported in current year recommendation # 4-7, 18
8	FCC Entity	Strengthen system controls and user account management, notably FCC should: • provide more oversight and develop its process to effectively provide standard system configuration, patch management and network vulnerability controls; • encrypt and password-protect data on government-issued laptops and removable devices; • perform periodic review and validation of users to ensure that only authorized users have access to these systems; • document the authorization and justification for all users requesting remote access to system resources; and • enforce password complexity authentication to FCC IT resources	Updated – Reported in current year recommendation # 14, 17-19, 22
9	FCC Entity	Strengthen FCC's application change controls, notably: • Develop and implement a uniform configuration management plan for the consistent testing, approval and implementation of changes across all FCC applications. In addition, FCC should actively involve ITC staff in the testing and implementation decision process. • Enforce separation of duties to ensure that access of developers to the production environments is restricted or supervised. • Update the Support Services Change Management Policy and ensure that post deployment reviews are performed and documented for all changes migrated into production.	Updated – Reported in current year recommendation # 20-22

Non Compliance

Recommendation Number	Condition Audit Area	Recommendation	Current Status

I. The Federal Managers' Financial Integrity Act (FMFIA)			
10.	FCC Entity and Component Entities	We recommend that management complete OMB Circular A-127 reviews for its financial management system.	Closed
II. Debt Collection Improvement Act (DCIA) of 1996			
11	FCC Entity and Component Entities	Establish and implement guidance in its policies and procedures manual to ensure that delinquent debt 180 days or older is referred to Treasury as required by the Debt Collection Improvement Act and that the TROR is properly reviewed to ensure its reasonableness prior to transmitting to Treasury.	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and have issued our report thereon dated November 12, 2009. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FCC is responsible for complying with laws, regulations, and provisions of contracts applicable to the FCC. As part of obtaining reasonable assurance about whether the FCC's consolidated financial statements are free of material misstatement, we performed tests of the FCC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in OMB Circular A-127, *Financial Management Systems*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, disclosed one instance of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is presented in Exhibit I.

The FCC's response to the instance of noncompliance or other matters identified in our audit is presented in the Agency Financial Report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2009.

This report is intended solely for the information and use of the FCC's management, the FCC's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009

The Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: "(i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, the agency head annually must evaluate and report on the control and financial systems that protect the integrity of Federal programs (Section 2 and Section 4 of FMFIA, respectively).

- Section 2 seeks to assess internal controls necessary to ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditure are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability of assets.
- Section 4 seeks to assess nonconformance of the agency's accounting system with the principles, standards, and related requirements prescribed by the Comptroller General.

OMB Circular A-127, *Financial Management Systems*, provides guidance in complying with section 4 of FMFIA. It states that financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Once implemented, this financial management system should allow an entity to prepare reliable financial statements in a timely and efficient manner. In doing so, they shall have the following characteristics:

- Common Data Elements - Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U.S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.
- Common Transaction Processing - Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.
- Consistent Internal Controls - Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.
- Efficient Transaction Entry - Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

The FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set within OMB Circular A-127.

Recommendations were issued under the Financial Reporting Significant Deficiency noted in the *Independent Auditors' Report on Internal Control Over Financial Reporting* dated November 12, 2009.

Office of the Managing Director

M E M O R A N D U M

DATE: November 13, 2009

TO: David L. Hunt, Acting Inspector General

FROM: Steven VanRoekel, Managing Director and Mark Stephens, Chief Financial Officer

SUBJECT: Management's Response to Independent Auditors' Reports on Internal Control Over Financial Reporting and Compliance and Other Matters for Fiscal Year 2009

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditors' Report on Internal Control Over Financial Reporting* and *Independent Auditors' Report on Compliance and Other Matters*. We appreciate the efforts of your team and the independent auditor, KPMG LLP, to work with the Federal Communications Commission (Commission) throughout the fiscal year (FY) 2009 audit process. This year's audit opinion was the result of commitment and professionalism that both our offices and the independent auditors demonstrated during the FY 2009 audit process. During the entire audit process the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to facilitate an efficient audit process.

We are pleased that, for the fourth straight year, the independent auditor provided an unqualified opinion and found that the Commission's consolidated financial statements for FY 2009 present fairly, in all material respects, the financial position of the Commission as of September 30, 2009. Four straight years of clean audit opinions is an unprecedented accomplishment for the Commission. We are also pleased that the independent auditor did not identify any material weaknesses in the Commission's financial reporting. We have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, work remains here at the Commission. The FY 2009 audit report points out two significant deficiencies related to internal controls and notes one instance of non-compliance that still needs to be resolved. The primary areas of concern relate to the financial reporting process, information technology control weaknesses and noncompliance with the Federal Managers' Financial Integrity Act. We concur with the recommendations made by the independent auditors in their report.

First, with regard to addressing the significant deficiency for the financial reporting process related to the Commission and its reporting components, the Commission has taken steps throughout FY 2008 and 2009 to resolve the auditors' findings and improve the performance of its financial reporting process through the implementation of a new core financial management system. The Commission is currently relying on a core financial management system that is obsolete and is no longer supported by its vendor.

The Commission has approached the replacement of its core financial management system as an opportunity to deliver on its strategic goal of modernizing the Commission, improving the efficiency and effectiveness of financial operations, and to replacing disparate financial systems with a single integrated financial system. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. During FY 2008, the Commission selected a vendor to supply the new core financial system and provide integration services. The Commission also selected a vendor to assist with change management, data clean up, and improvements to business process flows as it moves to the new core financial system. During FY 2009, the Commission worked assiduously with the selected vendor on the initiation, requirements, design, development, and testing phases of the project. In FY 2010 the Commission plans to complete the deployment of the new financial system and to go live with a new financial system in October 2010. Also in FY 2010 the Commission plans to work closely with its reporting component's in their efforts to modernize their financial systems.

Second, with respect to the significant deficiency related to information technology control weaknesses, the Commission is already working to fully assess the auditors' recommendations and to develop corrective action plans. Some findings are already in the process of being addressed (e.g., the certification and accreditation of key information technology systems). During FY 2010, the Commission will make every effort to complete corrective action for each of the recommendations associated with these findings so as to avoid any repeat findings in this area.

Third, with respect to the instances of noncompliance with the Federal Managers' Financial Integrity Act, the Commission and its reporting components are committed to implementing financial systems that are fully integrated, and that provide efficient and effective processing and reporting of accounting transactions and financial information.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2010 to resolve the FY 2009 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Steven VanRoekel, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
ASSETS (Note 2)		
Intragovernmental		
Fund balance with Treasury (Note 3)	$ 359,735	$ 444,293
Investments (Note 5)	6,016,693	5,721,609
Accounts receivable (Note 6)	889	2,731
Other (Note 8)	400,451	17,177,707
Total intragovernmental	6,777,768	23,346,340
Cash and other monetary assets (Note 4)	68,852	51,942
Accounts receivable, net (Note 6)	763,843	891,106
Loans receivable, net (Note 7)	83,589	187,340
General property, plant, and equipment, net	49,616	36,082
Other	7,735	15,031
Total assets	$ 7,751,403	$ 24,527,841
LIABILITIES (Note 9)		
Intragovernmental		
Debt (Note 10)	$ 46,484	$ 112,711
Other (Note 11)		
Custodial	110,808	193,854
Other	7,113	2,346
Total other	117,921	196,200
Total intragovernmental	164,405	308,911
Accounts payable	79,733	79,569
Other (Note 11)		
Deferred revenue (Note 8)	528,234	17,302,548
Prepaid contributions	57,670	73,179
Accrued liabilities for Universal Service	591,512	521,319
Other	62,778	46,471
Total other	1,240,194	17,943,517
Total liabilities	$ 1,484,332	$ 18,331,997
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended appropriations - other funds	$ 44,000	$ 11,273
Cumulative results of operations - earmarked funds (Note 19)	6,051,177	5,927,074
Cumulative results of operations - other funds	171,894	257,497
Total net position	$ 6,267,071	$ 6,195,844
Total liabilities and net position	$ 7,751,403	$ 24,527,841

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
Program costs:		
Broadband:		
Gross costs (Note 14)	$ 31,378	$ 21,787
Less: earned revenue (Note 14)	(34,791)	(25,109)
Net program costs	(3,413)	(3,322)
Competition:		
Gross costs (Note 14)	8,219,793	7,918,069
Less: earned revenue (Note 14)	(114,125)	(119,669)
Net program costs	8,105,668	7,798,400
Spectrum:		
Gross costs (Note 14)	154,242	198,845
Less: earned revenue (Note 14)	(137,218)	(154,572)
Net program costs	17,024	44,273
Media:		
Gross costs (Note 14)	165,217	53,368
Less: earned revenue (Note 14)	(95,437)	(59,717)
Net program costs	69,780	(6,349)
Public Safety and Homeland Security:		
Gross costs (Note 14)	34,137	32,985
Less: earned revenue (Note 14)	(31,195)	(37,104)
Net program costs	2,942	(4,119)
Modernize the FCC:		
Gross costs (Note 14)	52,519	50,784
Less: earned revenue (Note 14)	(49,334)	(55,920)
Net program costs	3,185	(5,136)
Total Net Program Costs	8,195,186	7,823,747
Cost not assigned to programs:		
Telecommunications Development Fund	2	8,960
Other expenses	(593)	(1,311)
Less: earned revenues not attributed to programs:		
Telecommunications Development Fund	(2)	(8,960)
Net cost of operations	$ 8,194,593	$ 7,822,436

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009 Consolidated Earmarked Funds	FY 2009 Consolidated All Other Funds	FY 2009 Consolidated Total	FY 2008 Consolidated Earmarked Funds	FY 2008 Consolidated All Other Funds	FY 2008 Consolidated Total
Cumulative Results of Operations						
Beginning Balances	$ 5,927,074	$ 257,497	$ 6,184,571	$ 5,193,576	$ 252,783	$ 5,446,359
Budgetary Financing Sources						
Other adjustments (rescissions, etc.)	-	(1,164)	(1,164)	-	(2,781)	(2,781)
Appropriations used	-	109,698	109,698	-	7,495	7,495
Non-exchange revenue	8,240,928	-	8,240,928	8,566,063	-	8,566,063
Transfers in/out without reimbursement	-	-	-	(21,480)	21,480	-
Other Financing Sources (Non Exchange)						
Transfers in/out without reimbursement	-	(19,444)	(19,444)	-	(22,115)	(22,115)
Imputed financing	-	14,608	14,608	-	13,568	13,568
Other	-	(111,533)	(111,533)	-	(1,582)	(1,582)
Total Financing Sources	8,240,928	(7,835)	8,233,093	8,544,583	16,065	8,560,648
Net Cost of Operations	8,116,825	77,768	8,194,593	7,811,085	11,351	7,822,436
Net Change	124,103	(85,603)	38,500	733,498	4,714	738,212
Cumulative Results of Operations	6,051,177	171,894	6,223,071	5,927,074	257,497	6,184,571
Unexpended Appropriations						
Beginning Balances	-	11,273	11,273	-	17,544	17,544
Budgetary Financing Sources						
Appropriations received	-	51,765	51,765	-	1,000	1,000
Appropriations transferred in/out	-	90,660	90,660	-	-	-
Other adjustments	-	-	-	-	224	224
Appropriations used	-	(109,698)	(109,698)	-	(7,495)	(7,495)
Total Budgetary Financing Sources	-	32,727	32,727	-	(6,271)	(6,271)
Total Unexpended Appropriations	-	44,000	44,000	-	11,273	11,273
Net Position	$ 6,051,177	$ 215,894	$ 6,267,071	$ 5,927,074	$ 268,770	$ 6,195,844

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008

(Dollars in thousands)

	FY 2009		FY 2008	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 2,282,036	$ 53,904	$ 1,702,164	$ 45,527
Recoveries of prior year unpaid obligations	1,118,204	-	1,036,931	-
Budget authority:				
Appropriations received	8,425,431	-	8,598,479	-
Borrowing authority (Note 16)	-	63,745	-	6,797
Spending authority from offsetting collections				
Earned:				
Collected	441,543	148,107	411,862	15,258
Change in receivables from Federal sources	(15)	-	7	-
Change in unfilled customer orders:				
Advance received	1,336	-	-	-
Previously unavailable	54,130	-	31,702	-
Budget authority subtotal	8,922,425	211,852	9,042,050	22,055
Nonexpenditure transfers, net, anticipated and actual	90,660	-	-	-
Temporarily not available pursuant to Public Law	(54,185)	-	(54,130)	-
Permanently not available	(1,164)	(129,972)	(4,139)	-
Total budgetary resources	$ 12,357,976	$ 135,784	$ 11,722,876	$ 67,582
Status of Budgetary Resources:				
Obligations incurred: (Note 15)				
Direct	$ 9,321,120	$ 123,440	$ 9,438,478	$ 13,678
Reimbursable	1,740	-	2,361	-
Subtotal	9,322,860	123,440	9,440,839	13,678
Unobligated balance - available:				
Apportioned	350,887	-	113,905	-
Exempt from apportionment	2,656,578	-	2,061,178	-
Unobligated balance not available	27,651	12,344	106,954	53,904
Total status of budgetary resources	$ 12,357,976	$ 135,784	$ 11,722,876	$ 67,582
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 3,588,774	$ -	$ 3,464,773	$ -
Uncollected customer payments from Federal sources, brought forward, October 1	(15)	-	(9)	-
Total unpaid obligated balance, brought forward, net	3,588,759	-	3,464,764	-
Obligations incurred net (+/-)	9,322,860	123,440	9,440,839	13,678
Gross outlays	(8,636,019)	(123,440)	(8,279,906)	(13,678)
Recoveries of prior year unpaid obligations, actual	(1,118,204)	-	(1,036,931)	-
Change in uncollected customer payments from Federal sources	15	-	(7)	-
Total, unpaid obligated balance, net, end of period	3,157,411	-	3,588,759	-
Obligated balance, net, end of period				
Unpaid obligations	3,157,411	-	3,588,774	-
Uncollected customer payments from Federal sources	-	-	(15)	-
Total, unpaid obligated balance, net, end of period	3,157,411	-	3,588,759	-
Net Outlays				
Net Outlays:				
Gross outlays	$ 8,636,019	$ 123,440	$ 8,279,906	$ 13,678
Offsetting collections	(442,879)	(148,107)	(411,862)	(15,258)
Distributed offsetting receipts	(189,641)	-	(216,686)	-
Net outlays	$ 8,003,499	$ (24,667)	$ 7,651,358	$ (1,580)

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 16,791,163	$ 1,793,794
Fines and Penalties	17,745	35,172
Credit Reform	11,915	13,678
TDA Interest	2	8,960
Total Cash Collections	16,820,825	1,851,604
Accrual Adjustments		
Spectrum Auctions	(2,492)	(444)
Fines and Penalties	(9,922)	8,515
Total Accrual Adjustments	(12,414)	8,071
Total Custodial Revenue	16,808,411	1,859,675
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(29,660)	(49,010)
Recipient B: Finance Acct (Recoveries)	(87,238)	-
Recipient C: Spectrum Relocation Fund	-	(92)
Recipient D: National Telecommunications & Information Admin.	(16,689,557)	(1,778,983)
(Increase)/Decrease in Amounts Yet to be Transferred	83,046	62,369
Retained by the Reporting Entity	(85,002)	(93,959)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Commission is an independent United States Government agency, established by the Communications Act (Act) of 1934, as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. Five commissioners direct the Commission; they are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term or serving in holdover status.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF reports the results of the four Universal Service support mechanisms (established pursuant to section 254 of the Act, as amended) and the results of the Telecommunications Relay Service (TRS) Fund (established by the Americans with Disabilities Act of 1990, Title IV). The NANP reports the results of billing and collection activities conducted to support the NANP (47 U.S.C. § 251(e); 47 C.F.R. § 52.16, 52.17, 52.32, and 52.33).

Basis of Accounting and Presentation

The consolidated financial statements (financial statements) have been prepared from the accounting records of the Commission in conformity with U.S. generally accepted accounting principles (GAAP) and the form and content for Federal entity financial statements specified by OMB Circular No. A-136, "Financial Reporting Requirements."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated, revolving, and deposit funds. The Commission may use the appropriated and revolving funds to finance expenditures, depending on budgetary availability. The deposit accounts are used to hold funds temporarily until they can be properly disbursed or distributed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Other Monetary Assets

Cash and Other Monetary Assets represent cash on deposit and money market funds at several commercial banks in accounts maintained by Universal Service Administrative Company (USAC), National Exchange Carrier Association (NECA), and Welch LLP, which contain the names of those entities and also refer to the Commission or the fund for which they serve as administrator or billing and collection agent. Cash on deposit is collateralized by the Federal Reserve.

Investments

Investments are reported net of the unamortized premium or discount. All investments are in Treasury securities.

Accounts Receivable, Net

Accounts Receivable consists of claims made for payment from the public and other federal entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

Loans Receivable, Net

The Federal Credit Reform Act (FCRA) of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. The FCRA requires that the present value of the subsidy costs associated with direct loans be recognized as a cost in the year that the loan is obligated. (Present value is calculated as the estimated cash outflows over the life of the loans, less the present value of the estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term.) Direct loans are reported net of an allowance for subsidy at the present value.

Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. All PP&E with an initial acquisition cost of $25 or more and all internally developed software with a development cost of $50 or more, and with an estimated useful life of two years or greater, are capitalized. Bulk purchases of similar items, individually worth less than $25 but collectively worth more than $250, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful lives of the items. The useful lives used are: forty years for buildings, seven years for non-computer equipment, five years for computers and vehicles, and three years for software. Neither land, including permanent improvements, nor software in development is depreciated. Normal maintenance and repair costs are expensed as incurred.

Leasehold improvements include all costs incurred during the design and construction phase of the improvement. These costs are amortized over the remaining life of the lease, or the useful life of the improvements, whichever is shorter.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Assets

Other Assets represent the balance of transfers less expenses made by the USF to the USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred. Other Assets – Intragovernmental are discussed in Note 8.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. As a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Deferred Revenue

The Commission collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued. In addition, the Commission collects multi-year regulatory fees for five- and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

The NANP and USF collect contributions from U.S., Canadian, and Caribbean carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

Debt

This account represents amounts due to the U.S. Treasury's Bureau of Public Debt (BPD) to support the spectrum auction loans program. Borrowings from BPD are determined based on subsidy estimates and reestimates in accordance with the FCRA of 1990, as amended, and OMB guidance. Interest payments on debt are calculated annually and remitted to BPD at the end of the fiscal year. These payments are recorded in a receipt account maintained by the Commission.

Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portions of future benefits earned by Federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(continued)**

Retirement Plans and Other Benefits (continued)

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, the Commission makes matching contributions equal to seven percent of basic pay. For FERS employees, the Commission contributes the employer's matching share for Social Security, contributes an amount equal to one percent of employee pay to a savings plan, and matches up to an additional four percent of pay. Most employees hired after December 31, 1983 are covered by FERS.

The OPM reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined by using historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. The Department of Labor determines no actuarial liability for the Commission, due to the immateriality to the Federal Government as a whole.

The unfunded FECA liability covers unemployment compensation and medical benefits. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by FECA.

Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

Revenue and Other Financing Sources

Regulatory Fee Collections (Exchange) - The Omnibus Budget Reconciliation Act of 1993 directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals of broadband, competition, spectrum, media, public safety and homeland security, and modernizing the Commission. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission's annual appropriation at the close of each fiscal year. The regulatory fee levels of $341,875 for FY 2009 and $312,000 for FY 2008 were achieved.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Other Financing Sources (continued)

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a “prepared to grant” or “grant” public notice is issued. The value of available spectrum is determined in the market place at the time of auction. The Commission recognized custodial revenue of $16,788,671 in FY 2009 and $1,793,350 in FY 2008.

Offsetting Collections (Exchange) – One of the Commission’s primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were capped at $85,000 in FY 2009 and FY 2008.

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to impose and collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the Commission has jurisdiction. The Commission amends its Schedule of Application Fees (47 C.F.R. § 1.1102 *et seq*.) to adjust the fees for processing applications and other filings. Section 8(b) of the Act, as amended, requires the Commission to review and adjust its application fees every two years. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time**.** Application fees are deposited in the Treasury and are not available for the Commission’s use. Application fees collected totaled $19,444 in FY 2009 and $22,175 in FY 2008.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $1,583 in FY 2009 and $2,052 in FY 2008.

Annual Appropriations (Financing Source) – The Commission receives an annual Salaries and Expenses appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. The annual appropriation for FY 2009 is $341,875 which is fully funded by regulatory fee collections. The annual appropriation for FY 2008 was $313,000 with regulatory fee collections of $312,000 resulting in a net appropriation of $1,000. The Commission funds expenditures first from appropriations and then from offsetting collections.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Other Financing Sources (continued)

Subsidy Estimates and Reestimates (Financing Source) – The Commission receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans after FY 1991, as well as administrative expenses of the loan program. The Commission received an appropriation for upward subsidy of $51,765 in FY 2009. No appropriation was requested for FY 2008. These appropriations are available until used.

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled $8,240,929 in FY 2009 and $8,566,063 in FY 2008.

Digital Television Transition and Public Safety Recovery Act Funds (Financing Source) – During FY 2009 the National Telecommunications and Information Administration (NTIA), U.S. Department of Commerce (DOC), transferred $70,605 in appropriated funds to the Commission for the purposes of consumer education and outreach regarding the digital television transition. Total obligations were $66,517 in FY 2009. These funds are part of the American Recovery and Reinvestment Act (ARRA) of 2009.

Broadband Technology Opportunities Program – National Broadband Plan Recovery Act Funds (Financing Source) - During FY 2009, the NTIA transferred $20,055 in appropriated funds to the Commission for the purpose of establishing benchmarks to ensure that all people of the United States have access to broadband capability. Total obligations were $3,144 in FY 2009. These funds are part of the ARRA of 2009.

Allocation of Exchange Revenues

The Commission directly assigns exchange revenue from reimbursable work agreements to specific programs on the statement of net cost. Exchange revenue from regulatory fees, offsetting collections, and application fees is assigned to programs in direct proportion to the level of direct and indirect costs recognized for each program. Radio Spectrum Auction proceeds are exchange revenue but are recorded on the statement of custodial activity because the Commission recognizes virtually no cost in connection with the revenues earned in the spectrum auction.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and billing and collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are the USAC, which is both the administrator and B&C agent for the four USF support mechanisms, the NECA which is both the administrator and B&C agent for the TRS Fund, and Neustar which is the administrator for the NANP fund and Welch LLP which is the B&C agent for the NANP fund. The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances as of and for the years ended FY 2009 and FY 2008 are listed below:

	USF	TRS	NANP	Total
FY 2009:				
Administrative Fees	$ 182,711	$ 1,390	$ 3,932	$ 188,033
Due To	-	98	-	98
Due From	7,677	-	-	7,677
Total	$ 190,388	$ 1,488	$ 3,932	$ 195,808
FY 2008:				
Administrative Fees	$ 156,120	$ 1,097	$ 3,875	$ 161,092
Due To	-	93	265	358
Due From	15,031	-	-	15,031
Total	$ 171,151	$ 1,190	$ 4,140	$ 176,481

Net Position

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations, revenues, and gains.

NOTE 2 – NON-ENTITY ASSETS

The following summarizes Non-entity Assets as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Intragovernmental:		
Fund Balance with Treasury (FBWT)	$ 143,772	$ 212,116
Accounts Receivable, Net	874	2,716
Other (Note 8)	400,451	17,177,707
Total Intragovernmental	545,097	17,392,539
Cash and Other Monetary Assets	21,012	1
Accounts Receivable, Net	18,053	30,259
Total Non-entity Assets	584,162	17,422,799
Total Entity Assets	7,167,241	7,105,042
Total Assets	$ 7,751,403	$24,527,841

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $132,199 in FY 2009 and $208,390 in FY 2008. Non-entity Cash and Other Monetary Assets also consist of deposits made by spectrum auction bidders that are held outside of Treasury. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

NOTE 3 – FUND BALANCE WITH TREASURY

The following summarizes Fund Balance with Treasury as of September 30, 2009 and 2008:

FY 2009

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 48,209	$ 12,344	$ -	$ 60,553
Unavailable	57,645	-	-	57,645
Obligated Balance not yet Disbursed	97,765	-	-	97,765
Non-Budgetary FBWT	-	-	143,772	143,772
Total	$ 203,619	$ 12,344	$ 143,772	$ 359,735

FY 2008

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 39,246	$ 53,904	$ -	$ 93,150
Unavailable	56,966	-	-	56,966
Obligated Balance not yet Disbursed	82,061	-	-	82,061
Non-Budgetary FBWT	-	-	212,116	212,116
Total	$ 178,273	$ 53,904	$ 212,116	$ 444,293

NOTE 3 – FUND BALANCE WITH TREASURY (continued)

Appropriated Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the no-year accounts used to carry over spectrum auction and regulatory fee funds, and the credit reform program account.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission's spectrum auction loan program.

Deposit Funds – Includes monies being held for spectrum auctions, ITS, and regulatory fees. Deposit funds are not available for use by the Commission unless they are properly identified or reclassified as Commission funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury.

NOTE 4 – CASH AND OTHER MONETARY ASSETS

The following summarizes Cash and Other Monetary Assets as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Cash and Other Monetary Assets	$ 68,852	$ 51,942

USF and NANP contributions and third party deposits made pursuant to spectrum auction activities are the source of funds for these balances. Third-party deposits, unless refunded, are held until 45 days after the close of a given auction and then transferred to the Commission's Treasury account. Interest earned on cash and other monetary assets is reinvested, with the exception of interest earned on third-party deposits, which is transferred to the Telecommunications Development Fund (TDF).

In FY 2009 Cash and Other Monetary Assets included $21,012 in deposits or related accrued interest being held for spectrum auctions, $44,199 in USF contributions and related accrued interest being held for distribution, and $3,641 in NANP deposits and related accrued interest.

In FY 2008 Cash and Other Monetary Assets included $1 in deposits or related accrued interest being held for spectrum auctions, $46,864 in USF contributions and related accrued interest being held for distribution, and $5,077 in NANP deposits and related accrued interest.

NOTE 5 - INVESTMENTS

The following summarizes Investments as of September 30, 2009 and 2008:

	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
FY 2009						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 5,534,226	EI	$ 4,844	$ -	$ 5,539,070	$ 5,541,136
Treasury Notes	475,786	EI	(1,233)	3,070	477,623	475,891
Total	$ 6,010,012		$ 3,611	$ 3,070	$ 6,016,693	$ 6,017,027
FY 2008						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 5,211,180	EI	$ 20,246	$ -	$ 5,231,426	$ 5,241,995
Treasury Notes	488,609	EI	(4,045)	5,619	490,183	491,554
Total	$ 5,699,789		$ 16,201	$ 5,619	$ 5,721,609	$ 5,733,549

EI - Effective Interest Method

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustments have been made to present market values. All investments are held by USF and are also recognized as part of earmarked funds in Note 19.

The cash receipts collected from the public for the Universal Service Fund are used to purchase federal securities. Treasury securities are an asset to the Universal Service Fund and a liability to the U.S. Treasury. Because the Universal Service Fund and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Universal Service Fund with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Universal Service Fund requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NOTE 6 – ACCOUNTS RECEIVABLE, NET

The following summarizes Accounts Receivable, Net as of September 30, 2009 and 2008:

	Intragovernmental	Public	Total
FY 2009			
Gross Accounts Receivable	$ 889	$ 1,172,675	$ 1,173,564
Allowance for Doubtful Accounts	(-)	(408,832)	(408,832)
Net Accounts Receivable	$ 889	$ 763,843	$ 764,732
FY 2008			
Gross Accounts Receivable	$ 2,731	$ 1,297,076	$ 1,299,807
Allowance for Doubtful Accounts	(-)	(405,970)	(405,970)
Net Accounts Receivable	$ 2,731	$ 891,106	$ 893,837

Accounts receivable are recorded net of any related allowance for doubtful accounts. The Commission's portion is determined by applying predetermined percentages against the respective date the receivable was established. The current formula for the Commission's allowance is 25% for receivables 91-180 days outstanding, 75% for those 181-365 days outstanding, and 100% for anything greater than 365 days outstanding. An additional analysis of higher dollar value receivables is also performed on individual account balances. The USF portion is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

The Notice of Apparent Liabilities (NAL) receivables represent notifications of possible forfeitures, subject to final determination. The NAL receivables are included under the Forfeitures category in the table below. While these receivables are included on the Treasury Report on Receivables at the request of Treasury, the ability to collect these receivables is not determined until a final judgment is issued. A 100% allowance is made for all NAL receivables. Similarly, the Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries have a 74% allowance in FY 2009 and an 86% allowance in FY 2008.

	FY 2009			FY 2008		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 936,300	$ (218,481)	$ 717,819	$ 1,043,273	$ (198,862)	$ 844,411
COMAD - Schools and Libraries	104,818	(77,145)	27,673	115,016	(98,914)	16,102
Regulatory Fees	29,452	(15,159)	14,293	29,498	(15,684)	13,814
Spectrum Auction	21,246	(21,246)	-	26,089	(23,596)	2,493
Forfeitures	69,821	(68,237)	1,584	72,410	(60,767)	11,643
Other	11,927	(8,564)	3,363	13,521	(8,147)	5,374
Total	$ 1,173,564	$ (408,832)	$ 764,732	$ 1,299,807	$ (405,970)	$ 893,837

NOTE 7 – LOANS RECEIVABLE, NET

Under section 309(j)(3) of the Act, as amended, Congress directed the Commission to implement a competitive bidding (auctions) system for licensing spectrum to expand economic opportunity, promote competition, and facilitate the development and delivery of new and improved telecommunications services to the public. Section 309(j)(4) of the Act gave the Commission certain instructions for implementing regulations for this system, including a directive to ensure that small businesses, rural telephone companies, and women and minority-owned businesses have an opportunity to participate in providing spectrum-based services. The Commission can use various means to facilitate expanded participation, including alternative payment schedules, tax certificates, bidding preferences, and other procedures.

To address the mandate, the Commission provided installment financing in connection with its spectrum auction events, including the C Block Broadband Personal Communications Services (PCS), F Block PCS, Narrowband PCS, Interactive Video and Data Service (IVDS), Multichannel Distribution Service (MDS), and 900MHz Specialized Mobile Radio (SMR). Under the installment financing program, winning bidders were generally given five or ten years to repay their net winning bid amount (less the down payment), with up to five-year, interest-only initial payment periods. Interest rates varied by the type of borrower. Retention of licenses granted at auction was strictly conditioned on making full and timely payment of amounts as they became due. The return or repossession of auctioned licenses, which may have previously been associated with installment payment plans, does not directly or immediately affect the amount of the outstanding debt recorded in the agency's financial records. Outstanding debt adjustments are subject to a separate process.

The Commission's first auction was conducted in 1994, and starting in 1995 installment payment mechanisms were used to finance portions of some winning bids. The Commission's installment loan portfolio is tracked under ten cohorts. The last active loan matured in April 2007.

As required under the FCRA of 1990, as amended, the Commission coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The most recent subsidy reestimate was completed in September 2009 for actual performance data through August 31, 2009. The reestimate resulted in a net downward adjustment, including interest on the reestimate, of $43,179 reported in the FY 2009 financial statements.

Direct Loans

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2009 Bal.	$ 201,965	$ 15,467	$ 1,408	$ (135,251)	$ 83,589
FY 2008 Bal.	$ 210,275	$ 16,511	$ 1,480	$ (40,926)	$ 187,340

Interest accrued on bankrupt and defaulted loans totaled $15,467 in FY 2009 and $16,511 in FY 2008. Other Receivables is composed of outstanding late fees on the loans receivable.

Total Amount of Direct Loans Disbursed

No new loans were issued in FY 2009 or FY 2008.

NOTE 7 – LOANS RECEIVABLE, NET (continued)

Subsidy Expense for Direct Loans by Program and Component

Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions:				
FY 2009 (Net)	$ -	$ -	$ (43,179)	$ (43,179)
FY 2008 (Net)	$ -	$ -	$ 27,627	$ 27,627

Schedule for Reconciling Subsidy Cost Allowance Balances

	FY 2009	FY 2008
Beginning Balance of the Subsidy Cost Allowance	$ 40,926	$ 190,816
Adjustments:		
Recoveries	87,309	85
Loans written off	(8,137)	(193,048)
Subsidy allowance amortization	(4,483)	15,446
Other	62,815	-
Ending balance before reestimates	178,430	13,299
Subsidy reestimates:		
Technical/default reestimate	(43,179)	27,627
Ending balance of the subsidy cost allowance	$ 135,251	$ 40,926

Administrative Expense	FY 2009	FY 2008
Spectrum Auctions	$ 3,383	$ 6,426

NOTE 8 – OTHER ASSETS

The Commission was required by the Digital Television Transition and Public Safety Act of 2005 to transfer the proceeds received from its competitive bidding system for recovered analog spectrum into the Digital Television Transition and Public Safety Fund (the Fund) by June 30, 2008. At the time of transfer and through September 30, 2008, there were $17,177,707 in proceeds that had not been earned by the Federal government because the licenses related to these proceeds had not been granted. As the custodian for this spectrum, the Commission retained a deferred revenue liability to the public for this amount in the event that any of these proceeds are required to be refunded. As an offset to the liability, the Commission recognized an Intragovernmental Other Asset from the National Telecommunications and Information Administration (NTIA) who held the related Fund Balance. The NTIA recorded a corresponding Other Liability that eliminates with the Commission Other Asset for Government-wide Financial Reporting purposes. Since September 30, 2008, the Commission has granted $16,774,557 and refunded $2,699 to reduce the outstanding Other Asset balance down to $400,451. There is a corresponding balance of $400,451 in Deferred Revenue at September 30, 2009 that relates to Auction #73 licenses that have not yet been granted.

NOTE 9 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Intragovernmental:		
Other:		
FECA Liability	$ 561	$ 480
GSA Real Estate Taxes	2,095	-
Other:		
Unfunded Leave	19,622	18,190
Accrued Liabilities for Universal Service	591,512	521,319
Total liabilities not covered by budgetary resources	613,790	539,989
Total liabilities covered by budgetary resources	870,542	17,792,008
Total Liabilities	$ 1,484,332	$ 18,331,997

NOTE 10 - DEBT

	FY 2008 Beginning Balance	Net Borrowing	FY 2008 Ending Balance	Net Borrowing	FY 2009 Ending Balance
Debt to the Treasury	$ 105,914	$ 6,797	$ 112,711	$ (66,227)	$ 46,484

The Commission borrows from the Treasury for costs associated with its spectrum auction loan program. Borrowings, pertaining to all loan cohorts, are determined by calculating the subsidy estimates and reestimates in accordance with the FCRA of 1990, as amended.

NOTE 11 – OTHER LIABILITIES

The following summarizes Other Liabilities as of September 30, 2009 and 2008:

FY 2009	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 110,808	$ 110,808
Other	-	7,113	7,113
Total Intragovernmental	$ -	$ 117,921	$ 117,921
Deferred Revenue	$ 24,920	$ 503,314	$ 528,234
Prepaid Contributions	-	57,670	57,670
Accrued Liabilities for Universal Service	-	591,512	591,512
Other	-	62,778	62,778
Total Other Public	$ 24,920	$ 1,215,274	$ 1,240,194

FY 2008	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 193,854	$ 193,854
Other	-	2,346	2,346
Total Intragovernmental	$ -	$ 196,200	$ 196,200
Deferred Revenue	$ 30,509	$ 17,272,039	$ 17,302,548
Prepaid Contributions	-	73,179	73,179
Accrued Liabilities for Universal Service	-	521,319	521,319
Other		46,471	46,471
Total Other Public	$ 30,509	$ 17,913,008	$ 17,943,517

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, ITS processing fees, and interest revenue on auction deposits (held for TDF). Deferred revenue represents regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the Commission.

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Low Income, and TRS programs. The obligation for these subsidies is not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments for services received, but not billed and Deposit/Unapplied Liability which represents upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined.

NOTE 12 - LEASES

Operating Leases

The Commission has operating leases for rental of office space. As a Federal agency, the Commission is not liable for any lease terms beyond one year. The Commission anticipates that space levels consistent with FY 2009 will be required for the next five years and has estimated space payments consistent with the schedule below. No estimates beyond five years have been provided because of the cancelable nature of the agreements.

Anticipated lease requirements are as follows:

Fiscal Year	Building
2010	$ 45,229
2011	46,238
2012	47,272
2013	48,333
2014	49,421
Total Future Lease Payment	$ 236,493

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of USF funds from the Schools and Libraries and the High Cost and Low Income programs, which might result in future proceedings or actions. Similarly the Commission, NECA, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these actions precludes management from estimating the total amount of recovery that may result from these actions.

The Commission is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. In addition, several ongoing bankruptcy proceedings are related to the loan portfolio. In the opinion of Commission management, the ultimate resolution of proceedings, actions and claims will not materially affect the Commission's financial position or results of operations.

The Commission has examined its obligations related to canceled authority and believes it has no outstanding commitments requiring future resources.

In September 2007, the National Treasury Employees Union (NTEU) filed a grievance with the Commission under the Federal Labor Standards Act (FLSA) alleging that certain FCC bargaining unit employees were not appropriately compensated for overtime work. The monetary impact of the grievance at this time is not measurable.

NOTE 14 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs primarily represent interest expense paid by the Commission on outstanding credit reform borrowing. Additional amounts are also recognized for goods and services purchased by the Commission from other Federal agencies.

Program Costs - FY 2009

Program	Intragovernmental	Public	Total
Broadband	$ 9,518	$ 21,860	$ 31,378
Competition	29,311	8,190,482	8,219,793
Spectrum	31,374	122,868	154,242
Media	25,488	139,729	165,217
Public Safety and Homeland Security	10,369	23,768	34,137
Modernize the FCC	14,525	37,994	52,519
Total	$ 120,585	$ 8,536,701	$ 8,657,286

Program Earned Revenue - FY 2009

Program	Intragovernmental	Public	Total
Broadband	$ -	$ 34,791	$ 34,791
Competition	-	114,125	114,125
Spectrum	5,729	131,489	137,218
Media	-	95,437	95,437
Public Safety and Homeland Security	(166)	31,361	31,195
Modernize the FCC	-	49,334	49,334
Total	$ 5,563	$ 456,537	$ 462,100

Program Costs - FY 2008

Program	Intragovernmental	Public	Total
Broadband	$ 6,069	$ 15,718	$ 21,787
Competition	28,618	7,889,451	7,918,069
Spectrum	47,898	150,947	198,845
Media	14,543	38,825	53,368
Public Safety and Homeland Security	10,110	22,875	32,985
Modernize the FCC	12,638	38,146	50,784
Total	$ 119,876	$ 8,155,962	$ 8,275,838

Program Earned Revenue - FY 2008

Program	Intragovernmental	Public	Total
Broadband	$ -	$ 25,109	$ 25,109
Competition	-	119,669	119,669
Spectrum	10,112	144,460	154,572
Media	593	59,124	59,717
Public Safety and Homeland Security	1,287	35,817	37,104
Modernize the FCC	-	55,920	55,920
Total	$ 11,992	$ 440,099	$ 452,091

NOTE 15 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT vs. REIMBURSABLE OBLIGATIONS

The following summarizes Apportionment Categories of Obligations Incurred for the years ended September 30, 2009 and 2008:

	FY 2009		FY 2008	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 428,416	$ -	$ 399,995	$ -
Category B	824,764	123,440	654,178	13,678
Exempt from Apportionment	8,067,940	-	8,384,305	-
Total Direct	$ 9,321,120	$ 123,440	$ 9,438,478	$ 13,678
Reimbursable				
Category A	$ 1,740	$ -	$ 2,361	$ -

Category A – Apportioned by Quarter
Category B – Apportioned by Purpose

NOTE 16 – TERMS OF BORROWING AUTHORITY USED

Maturity Dates :	FY 2009	FY 2008
September 30, 2009	$ -	$ 543
September 30, 2010	-	1
September 30, 2011	63,745	6,253
Total Borrowing Authority Used	$ 63,745	$ 6,797

The Commission used $63,745 in borrowing authority for the year ended September 30, 2009. This authority was used to extend the maturity dates of the debt owed to BPD. In FY 2008 the Commission used borrowing authority of $6,797 to cover interest expense. The Commission anticipates that this borrowing will be repaid from proceeds generated from the recovery of funds related to bankrupt and defaulted loans.

NOTE 17 – LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

Pursuant to Public Law 111-8, offsetting collections received in excess of $341,875 in FY 2009 shall not be available for obligation and any remaining offsetting collections from prior years collected in excess of the amount specified for collection in each such year otherwise becoming available on October 1, 2008, are not available for obligation.

NOTE 18 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE U.S. GOVERNMENT

There were no material differences between the Statement of Budgetary Resources for FY 2008 and the amounts presented in the 2010 President's Budget. The FY 2011 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2009 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http://www.whitehouse.gov/omb.

NOTE 19 – EARMARKED FUNDS

U.S. telecommunications companies are obligated to make contributions to the Universal Service Fund and the Telecommunications Relay Service Fund. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions collected under the USF Program as non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

NOTE 19 – EARMARKED FUNDS (continued)

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Balance Sheet		
ASSETS		
Investments	$ 6,016,693	$ 5,721,609
Cash and other monetary assets	44,199	46,864
Acounts receivable, net	757,347	862,058
General property, plant, and equipment, net	15,244	10,723
Other assets	7,677	15,031
Total assets	$ 6,841,160	$ 6,656,285
LIABILITIES		
Accounts payable	$ 77,954	$ 77,125
Deferred revenue	62,875	57,622
Prepaid contributions	57,642	73,145
Accrued liabilities	591,512	521,319
Total liabilities	$ 789,983	$ 729,211
Cumulative results of operations	$ 6,051,177	$ 5,927,074
Total liabilities and net position	$ 6,841,160	$ 6,656,285
Statement of Net Cost		
Gross program costs	$ 8,116,825	$ 7,811,085
Less earned revenues	-	-
Net cost of operations	$ 8,116,825	$ 7,811,085
Statement of Changes in Net Position		
Net position beginning of period	$ 5,927,074	$ 5,193,576
Non-exchange revenue	8,240,928	8,566,063
Transfers in/out without reimbursement	-	(21,480)
Net cost of operations	8,116,825	7,811,085
Change in net position	124,103	733,498
Net position end of period	$ 6,051,177	$ 5,927,074

NOTE 20 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders totaled $3,058,208 as of September 30, 2009 and $3,501,751 as of September 30, 2008.

NOTE 21 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

As of September 30, 2009 and 2008:

	FY 2009	FY 2008
Budgetary Resources Obligated:		
Obligations incurred	$ 9,446,300	$ 9,454,517
Less: spending authority from offsetting collections and recoveries	1,709,175	1,464,056
Obligations net of offsetting collections and recoveries	7,737,125	7,990,461
Less: offsetting receipts	189,641	216,686
Net obligations	7,547,484	7,773,775
Other Resources	(116,467)	35,683
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	443,543	(142,273)
Resources that fund expenses recognized in prior periods	-	(32,947)
Budgetary offsetting collections and receipts that do not affect net cost of operations	337,748	196,091
Resources that finance the acquisition of assets	(25,321)	(18,373)
Other	(40,873)	(39,425)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	1,432	1,004
Upward/Downward reestimates of credit subsidy (+/-)	(43,179)	27,627
Increase in exchange revenue receivable from the public	351	435
Depreciation and amortization	12,174	13,911
Other (+/-)	77,708	6,928
Net Cost of Operations	$ 8,194,593	$ 7,822,436

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2009
(Dollars in thousands)

The OMB Circular No. A-136, "Financial Reporting Requirements," requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the Commission and the Universal Service Fund. Reflected in the chart below are the major accounts of the Commission that are aggregated and presented in the September 30, 2009 Combined Statement of Budgetary Resources.

FY2009	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Unobligated balances - brought forward, October 1	$ 30,739	$ 63,482	$ 2,488	$ 2,239,231	$ 2,335,940
Recoveries of prior year unpaid obligations	5,935	33	1,689	1,110,547	1,118,204
Budget authority	397,644	263,617	85,000	8,388,016	9,134,277
Nonexpenditure transfers, net, anticipated and actual	90,660	-	-	-	90,660
Temporarily not available pursuant to Public Law	(54,185)	-	-	-	(54,185)
Permanently not available	(75)	(129,972)	(1,089)	-	(131,136)
Total budgetary resources	$ 470,718	$ 197,160	$ 88,088	$ 11,737,794	$ 12,493,760
Status of Budgetary Resources:					
Obligations incurred	$ 429,184	$ 177,815	$ 84,953	$ 8,754,348	$ 9,446,300
Unobligated balances - available	39,981	6,961	-	2,960,523	3,007,465
Unobligated balances - not available	1,553	12,384	3,135	22,923	39,995
Total, status of budgetary resources	$ 470,718	$ 197,160	$ 88,088	$ 11,737,794	$ 12,493,760
Change in Obligated Balance:					
Total unpaid obligated balance, net brought Forward	$ 52,607	$ 2,153	$ 26,578	$ 3,507,421	$ 3,588,759
Obligations incurrred, net	429,184	177,815	84,953	8,754,348	9,446,300
Gross outlays	(408,532)	(178,816)	(80,535)	(8,091,576)	(8,759,459)
Recoveries of prior year unpaid obligations, actual	(5,935)	(33)	(1,689)	(1,110,547)	(1,118,204)
Change in uncollected customer payments from Federal sources	15	-	-	-	15
Total, Unpaid obligated balance, net, end of period	$ 67,339	$ 1,119	$ 29,307	$ 3,059,646	$ 3,157,411
Net Outlays					
Gross outlays	$ 408,532	$ 178,816	$ 80,535	$ 8,091,576	$ 8,759,459
Offsetting collections	(343,529)	(148,107)	(85,000)	(14,350)	(590,986)
Distributed offsetting receipts	(133,006)	-	-	(56,635)	(189,641)
Net outlays	$ (68,003)	$ 30,709	$ (4,465)	$ 8,020,591	$ 7,978,832