UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Audit of the NLRB Fiscal Year 2012 Financial Statements

Report No. OIG-F-17-13-01

December 2012

INSPECTOR GENERAL

NATIONAL LABOR RELATIONS BOARD

WASHINGTON, DC 20570

December 6, 2012

The Accountability of Tax Dollars Act of 2002 requires that the NLRB prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) an audited financial statement.

The NLRB Office of Inspector General (OIG) contracted with Carmichael, Brasher, Tuvell & Company (CBTC) to perform the audit. The objectives of the audit were to issue an opinion on the fair presentation of the principal financial statements, obtain an understanding of the Agency's internal controls, and test compliance with laws and regulations that could have a direct and material effect on the financial statements. The audit was conducted by CBTC in accordance with Government Auditing Standards issued by the Comptroller General of the United States and OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements.

This document is the NLRB OIG's comprehensive report related to auditing the Agency's financial statements and includes CBTC's independent auditors' report and management letter; NLRB's financial statements and related notes; and the Agency's responses to the independent auditors' report and management letter.

CBTC is responsible for the independent auditors' report and the conclusions expressed in the report. We reviewed CBTC's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the NLRB's financial statements or internal control or conclusions on compliance with laws and regulations. Our review disclosed no instances in which CBTC did not comply, in all material respects, with generally accepted government auditing standards.

On November 7, 2012, we transmitted CBTC's independent auditors' report, which was included in the Agency's FY 2012 Performance and Accountability Report. The audit results were:

- The financial statements present fairly, in all material respects, the financial condition and activity of the NLRB as of and for the years ending September 30, 2011 and 2012.

- The tests on internal controls identified no material weaknesses in controls over financial reporting. CBTC's opinion did not provide any assurances on the effectiveness of internal control over financial reporting. Providing assurances on internal control or on the effectiveness of NLRB's internal control over financial reporting was not an objective of the audit.

- The tests on compliance with laws and regulations included a review of NLRB OIG-issued reports. The NLRB OIG issued a report entitled End-of-the-Year Spending (Report No. OIG-AMR-70-12-02) dated September 2012, covering the period June 2011 through September 2011. This report identified several transactions related to procurement activity that were not properly processed by NLRB in compliance with the *bona fide* needs rule and the Federal Acquisition Regulation.

  No other instances of noncompliance with laws and regulations that would be reportable under U. S. generally accepted government auditing standards or OMB audit guidance were found. Providing an opinion on compliance with laws and regulations, however, was not an objective of the audit and, accordingly, such an opinion was not expressed.

CBTC's independent auditors' report did not include any recommendations for corrective action. CBTC's management letter contains recommendations to address findings related to the termination of network accounts and the review of journal vouchers. The management letter also provides information on the status of prior year recommendations.

In their comments, the Chairman and Acting General Counsel stated that they agreed with the findings and recommendations as well as the responses of the Agency's management officials. The comments are presented in their entirety in this report.

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INDEPENDENT AUDITORS' REPORT

To David P. Berry, Inspector General
National Labor Relations Board

The Accountability of Tax Dollars Act of 2002 made the National Labor Relations Board (NLRB) subject to the annual financial statement reporting requirements of the Chief Financial Officers Act of 1990, which requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations.

The objectives of the audit are to express an opinion on the fair presentation of NLRB's principal financial statements, obtain an understanding of the Agency's internal control, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the balance sheets of NLRB as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and budgetary resources for the years then ended.

NLRB's management is responsible for preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; establishing, maintaining, and assessing internal controls over financial reporting; preparing the Management's Discussion and Analysis (MD&A); and complying with laws and regulations.

Our responsibility is to express an opinion on the Fiscal Year (FY) 2012 and 2011 financial statements of NLRB based on our audit. 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*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of NLRB, as of September 30, 2012 and 2011; and the net cost, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered NLRB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control or on the effectiveness of NLRB's internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. Consequently, we do not provide an opinion on the effectiveness of NLRB's internal control over financial reporting.

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 ***material weakness*** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A significant deficiency was previously communicated to management and those charged with governance on November 9, 2010 in our Report on Internal Control for the fiscal year ending September 30, 2010. For the Report of Internal Control for the fiscal Year ending September 30, 2011, we stated that the significant deficiency continued during that fiscal year. During the current fiscal year, the significant deficiency was remediated by management and those charged with governance.

We also identified other matters in internal control that came to our attention during our audit that we communicated in writing to the management of NLRB and those charged with governance.

We considered NLRB's internal control over Required Supplementary Information (RSI) by obtaining an understanding of the Agency's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin No. 07-04. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to NLRB. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our testing with compliance with laws and regulations included a review of NLRB OIG issued reports. The NLRB OIG issued a report entitled *End-of-the-Year Spending (Report No. OIG-AMR-70-12-02)* dated September 2012 covering the period June 2011 through September 2011. This report identified several transactions related to procurement activity that were not properly processed by NLRB in compliance with the *bona fide* needs rule and the Federal Acquisition Regulation.

Except as noted above, our tests of compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under U. S. generally accepted government auditing standards or OMB audit guidance.

Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements of NLRB taken as a whole. The accompanying financial information is not a required part of the financial statements.

The other accompanying information included in the MD&A and RSI sections of the Performance and Accountability Report are required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. We did not audit the other accompanying information and, accordingly, do not express an opinion or any other form of assurance on it.

This communication is intended solely for the information and use of those charged with governance and management of NLRB, others within the organization, OMB, and the Congress of the United States, and is not intended to be and should not be used by anyone other than these specified parties.

CARMICHAEL, BRASHER, TUVELL & COMPANY, P.C.

Carmichael, Brasher, Tuvell + Co., P.C.

Atlanta, Georgia
November 7, 2012

UNITED STATES GOVERNMENT
National Labor Relations Board
Memorandum

TO: David P. Berry
Inspector General

FROM: Mark Gaston Pearce, Chairman
Lafe E. Solomon, Acting General Counsel

DATE: November 15, 2012

SUBJECT: Response to Audit of the National Labor Relations Board Fiscal Year 2012 Financial Statements (OIG-F-17-13-01)

We have reviewed the Audit Report submitted by Carmichael, Brasher, Tuvell & Company and are pleased that the FY 2012 audit of the NLRB's financial statements has resulted in an unqualified opinion with no recommendations or corrective actions. We agree with the findings of the report and have no further comments on the subject.

Mark Gaston Pearce
Chairman

Lafe E. Solomon
Acting General Counsel

MANAGEMENT LETTER

To David P. Berry, Inspector General
National Labor Relations Board

We audited the financial statements (balance sheet, and the related statements of net cost, changes in net position, and statement of budgetary resources, hereinafter referred to as "financial statements") of the National Labor Relations Board (NLRB) as of and for the years ended September 30, 2012 and 2011, on which we issued an unqualified opinion dated November 7, 2012.

In planning and performing our audit, we considered NLRB's internal control over financial reporting by obtaining an understanding of the design effectiveness of its internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, but not for the purpose of expressing an opinion on the effectiveness of NLRB's internal control. We have not considered the internal control structure since the date of our report.

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 significant deficiency was previously communicated to management and those charged with governance on November 9, 2010 in our Report on Internal Control for the fiscal year ending September 30, 2010. For the Report on Internal Control for the fiscal year ending September 30, 2011, we stated that the significant deficiency continued during that fiscal year. During the current fiscal year, the significant deficiency was remediated by management and those charged with governance.

During our audit, we also noted certain matters involving the internal control structure and other operational matters that are presented in this letter for your consideration. These issues and related recommendations have been discussed with the appropriate members of NLRB's management and are intended to improve the internal control structure or result in operating efficiencies. NLRB's written responses to these matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We reviewed six (6) open recommendations made in the prior years' management letters (two from 2011, three from 2010, and one from 2006) and determined the status of corrective actions for each. One (1) recommendation is partially completed and five (5) recommendations were closed.

NLRB's written responses to the prior years' management letter comments have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The report is intended for the information and use of those charged with governance and management of NLRB, the Office of Inspector General, others within the organization, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than those specified parties.

CARMICHAEL BRASHER TUVELL & COMPANY

Carmichael, Brasher, Tuvell + Co., P.C.

Atlanta, Georgia
November 7, 2012

MANAGEMENT LETTER COMMENTS

#1 – Information Technology – Active Directory Accounts

Condition

The National Labor Relations Board (NLRB) Office of the Chief Information Officer (OCIO) was not following its policy to disable Active Directory (AD) accounts and remove access to the NLRB network for employees whose accounts remained inactive for a 45-day period.

During our initial testing, a review of the AD accounts revealed that a Regional Office employee's account was not disabled after the account remained inactive for 45 days. The employee's last day of work before beginning a period of unauthorized absence was 10/14/2011. The employee was then removed from NLRB employment on 1/20/2012. The Security Branch received the employee's Identification card on 2/2/2012. The Office of Human Resources processed the employee's Form NLRB-4197 on 3/15/2012. When we reviewed the Active Directory accounts on 4/17/2012, the employee's Active Directory account was listed as "Account Still Active." That status would allow access to the NLRB network.

We found no evidence that the Regional Office provided the OCIO with any documentation or notice regarding the employee's unauthorized absence or removal action, and the employee's name did not appear on the Office of Human Resources' separation reports between January 15, 2012 and March 24, 2012. Although the OCIO had an existing policy (Access Control Standards – Password Management) to disable accounts that are dormant (inactive) for a period of 45 days, OCIO personnel stated that they had not executed this policy since March 2011.

We also performed additional testing at year-end. We found that for two employees, the AD accounts were not disabled until the accounts were reviewed after an Office of Inspector General request for AD account information. In both cases, the accounts remained active for 45 days. Additionally, we found that there was no supporting documentation regarding three AD accounts that were disabled. As the result of the lack of documentation, we cannot determine when the accounts were disabled.

Cause

The OCIO was not notified of the employee's absence without leave status or the removal action.

The OCIO did not execute timely action to disable employees' AD accounts in accordance with its policy.

Effect

Former employees continued to have access to the NLRB network after his or her employment ended. Former employees, particularly those who leave his or her employment under adverse circumstances, may cause harm to the NLRB through unauthorized access, use, disclosure, disruption, modification, or destruction of the NLRB's internal information or information systems.

Criteria

FIPS Publication 200, Minimum Security Requirements for Federal Information and Information Systems, states "***Specifications for Minimum Security Requirements Access Control (AC):*** *Organizations must limit information system access to authorized users, processes acting on behalf of authorized users, or devices (including other information systems) and to the types of transactions and functions that authorized users are permitted to exercise.*"

NIST SP 800-53 Revision 3 , Recommended Security Controls for Federal Information Systems and Organizations, states *"**AC-2 Account Management** The organization manages information system accounts, including: e. Establishing, activating, modifying, disabling, and removing accounts; g. Notifying account managers when temporary accounts are no longer required and when information system users are terminated, transferred, or information system usage or need-to-know/need-to-share changes; h. Deactivating: (i) temporary accounts that are no longer required; and (ii) accounts of terminated or transferred users."*

OCIO-2009-0001 NLRB Access Control Standards Password Management 1.4.2 Password Lifetime states *"All passwords will have a maximum password lifetime of 60 days. Systems must have an automated mechanism to ensure that users change their passwords at an interval not greater than 60 days. In addition, user IDs are to be suspended after three invalid password attempts or if the account has been dormant for a period of 45 days."*

Recommendation

We recommend that NLRB's OCIO coordinate with appropriate personnel (i.e. Office of Human Resources, Regional Offices, etc.) to ensure that the OCIO is notified immediately of all terminations, transfers, temporary accounts no longer required, or any NLRB employee who is absent without leave.

In addition, we recommend the OCIO ensures compliance with the Access Control Standards – Password Management in regard to the disabling of inactive accounts that have been dormant for a period of 45 days, with a schedule of regularly performed user account maintenance to remove inactive user accounts. We also recommend the OCIO maintain appropriate documentation of its compliance with this policy.

Agency Response

NLRB's Chief Information Officer (CIO) concurred with the finding. The CIO stated that his office developed procedures to review and disable dormant user accounts. According to the CIO the procedures were first executed during last full week of the last month of the third quarter of the calendar year (September 2012). The CIO also stated that his office developed and implemented an automated script that will run daily to disable staff and contractor accounts that have a last login date of greater than 45 days. This process will also produce a log file of all activity that will be e-mailed to the Service Desk, IT Security, and Infrastructure. The Infrastructure team has procured Active Directory auditing software that will maintain a record of account modifications.

As for the recommendation that the "OCIO coordinate with appropriate personnel," the CIO stated that he previously sponsored and organized a committee to review the Agency's on- and off-boarding processes, and to implement changes to streamline and standardize the processes. According to the CIO, the departure of key personnel slowed the committee's progress. Additionally, the CIO stated that his office reached out to Office of Human Resources to improve their visibility into the off-boarding process.

CBTC'S Assessment of Agency Response

CBTC will follow up on Management's response and corrective actions during our FY 2013 audit process.

#2 – Finance Branch – Review of Journal Vouchers

Condition

CBTC received the Internal Use Software depreciation expense journal voucher and supporting documentation on October 17, 2012, as requested by CBTC's Prepared By Client (PBC) List for the audit. Based on our review of the journal voucher, we determined that the calculation for depreciation expense was incorrect. The amount of the error was $509,061.

When we interviewed the Section Chief, we were told that the journal voucher posted to the General Ledger without being approved by the Finance Branch Chief. We determined that the journal voucher was prepared by a systems accountant and that the Section Chief then reviewed it for reasonableness and approved it. That action allowed the journal entry to be posted to General Ledger without the approval of the Finance Branch Chief and was a deviation from the Finance Branch's normal procedures for segregation of duties.

When questioned about this error, the Finance Branch Chief stated that the journal voucher was prepared without her review because she wanted to provide it to the auditors at that time to meet the due date. However, in contradiction to this statement, our review of the journal voucher and the general ledger determined that the journal entry was posted 14 days prior to the due date established by the PBC List, allowing the Finance Branch Chief a reasonable amount of review time. The Finance Branch Chief also stated that she thought she would catch any errors while performing her review of the financial statements.

The error was then corrected by the Finance Branch after being brought to its attention by the auditors before the final Financial Statements were issued. The Acting Deputy Chief Financial Officer stated to us that the Agency's new financial management system would prevent this type of error from reoccurring because Finance Branch personnel would not be able to override that system's segregation of duties controls.

Cause

The journal voucher was not approved at an appropriate level of management (Finance Branch Chief) before being posted to the General Ledger and then provided to the auditors.

Effect

Without approval by the Finance Branch Chief, a journal voucher containing an error was posted to the General Ledger that could have resulted in misstatement of the financial statements.

Criteria

OMB Circular A-123, Revised, Management's Responsibility for Internal Control,
II. STANDARDS, C. Control Activities
Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

Recommendation
We recommend that Finance Branch personnel follow the internal controls that are designed to provide segregation of duties.

Agency Response
NLRB's Chief Financial Officer (CFO) concurred with the finding. The CFO submitted the Agency's new journal entry process that will utilize NLRB's new Oracle system to ensure proper internal control procedures are followed to mitigate risk.

CBTC'S Assessment of Agency Response
CBTC will follow up on Management's response and corrective actions during our FY 2013 audit process.

MANAGEMENT LETTER COMMENTS (continued)

#3 - Prior Year Recommendations

Open Prior Year Management Letter Recommendations
Six (6) prior year management letter recommendations were open during FY 2012. As shown in the table below, one (1) recommendation is partially completed and five (5) recommendations were closed.

Prior Year Recommendation	Current Year Status
FY 2011 Management Letter Information Technology Advisory Services We recommend that the Agency implement the prior recommendations that address the significant deficiency in internal controls.	Closed.
Telecommunications We recommend that the NLRB: 1) Utilize a tracking calendar system for all contracts; 2) Consider implementing procurement software; 3) Manage contracts in order to assure timely issuance of preliminary notifications; 4) Compare the status of Request to Purchase, Form 12's to the contract; 5) Issue the contract modification prior to the expiration date of the original contract; 6) Assure that option year evaluations are documented in the contract file; and 7) Ratify the procurement action as deemed necessary by Special Counsel.	Partially complete.
FY 2010 Management Letter Significant Deficiency We recommend that the Agency establish a system of internal controls to ensure that laws and regulations relating to procurement are properly applied. These controls may include but are not limited to: 1. Establishment of a Chief Financial Officer outside of the Division of Administration that reports to those charged with governance; 2. Utilization of legal counsel to review non-GSA schedule contracts and contracts over specified monetary amount prior to award to determine compliance with the Federal Acquisition Regulation (FAR); 3. Creation of a formalized system of training contracting officers; and 4. Initiation of a quality control review system prior to issuing contracts that would include peer review.	Closed.

MANAGEMENT LETTER COMMENTS (continued)

Prior Year Recommendation	Current Year Status
OEEO Food Purchase We recommend that the Antideficiency Act violations that occurred in FY 2006 through FY 2010 be reported in accordance with the statutory requirements and OMB guidance.	Closed.
Personal Service Contract We recommend that the Agency: 1. Terminate the contract with the contractor; and 2. Report the Antideficiency Act violation in accordance with the statutory requirements and OMB guidance.	Closed.
FY 2006 Management Letter Implement the recommendations summarized in INDR No. 5-2006. These related to information technology (IT) security vulnerabilities.	Closed.

UNITED STATES GOVERNMENT
National Labor Relations Board

Memorandum

December 5, 2012

TO: David Berry
Inspector General

FROM: Mark Gaston Pearce, Chairman
Lafe E. Solomon, Acting General Counsel

SUBJECT: Comments on Draft Management Letter on Audit of the National Labor Relations Board's Fiscal Year 2012 Financial Statements (OIG-F-17-13-01a)

This is in response to your memorandum, dated December 3, 2012, wherein you requested comments on the draft Management Letter covering the audit of the Agency's Fiscal Year 2012 financial statements. In your memo, you requested that we also indicate our agreement or disagreement with each of the report's findings and recommendations.

We reviewed the draft Management Letter and concur with the findings and recommendations, as well as the responses of the Agency's management officials.

Mark Gaston Pearce, Chairman

Lafe E. Solomon, Acting General Counsel

cc: Chief Financial Officer
Chief Information Officer

PRINCIPAL FINANCIAL STATEMENTS

AUDITOR'S REPORTS AND PRINCIPAL FINANCIAL STATEMENTS

PRINCIPAL STATEMENTS

National Labor Relations Board
Balance Sheet
As of September 30, 2012 and 2011
(in dollars)

	FY 2012	FY 2011
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 26,829,675	$ 26,485,035
Advances (Note 4)	186,019	77,635
Total Intragovernmental	**27,015,694**	**26,562,670**
Accounts receivable, net (Note 5)	76,961	53,951
General property, plant and equipment, net (Notes 6 and 10)	13,527,547	12,703,848
Total Assets	**$ 40,620,202**	**$ 39,320,469**
Liabilities:		
Intragovernmental:		
Accounts payable (Note 7)	$ 3,890,755	$ 3,690,963
Employer contributions and payroll taxes	827,258	822,930
FECA liability (Notes 8 and 10)	765,165	582,946
Other	209,407	83,867
Total Intragovernmental	**$ 5,692,585**	**$ 5,180,706**
Accounts payable:	8,876,275	9,207,859
Estimated future FECA liability (Notes 8 and 10)	1,630,611	1,278,528
Accrued payroll and benefits	3,153,276	3,269,476
Accrued annual leave (Notes 8 and 10)	14,163,509	15,145,566
Total Liabilities	**$ 33,516,256**	**$ 34,082,135**
Net position:		
Unexpended appropriations	$ 10,058,724	$ 9,487,574
Cumulative results of operations (Note 10)	(2,954,778)	(4,249,240)
Total Net Position	**7,103,946**	**5,238,334**
Total Liabilities and Net Position	**$ 40,620,202**	**$ 39,320,469**

The accompanying notes are an integral part of these statements.

National Labor Relations Board
Statement of Net Cost
For the Periods Ended September 30, 2012 and 2011
(in dollars)

	FY 2012	FY 2011
Program Costs:		
Resolve Representation Cases		
Net Cost	**$ 48,024,590**	**$ 49,822,208**
Resolve Unfair Labor Practices		
Net Cost	**$ 244,755,968**	**$ 254,192,871**
Other:		
Costs	$ 10,971	$ 17,814
Less: Earned Revenue	10,971	17,814
Net Cost	**–**	**–**
Total:		
Costs	$ 292,791,529	$ 304,032,893
Less: Earned Revenue	10,971	17,814
Net Cost of Operations (Note 11)	**$ 292,780,558**	**$ 304,015,079**

The accompanying notes are an integral part of these statements.

National Labor Relations Board
Statement of Changes In Net Position
For the Periods Ended September 30, 2012 and 2011

(in dollars)

	FY 2012	FY 2011
Cumulative Results of Operations:		
Beginning Balance	$ (4,249,240)	$ (5,010,839)
Budgetary Financing Sources:		
Appropriations-used	277,129,011	285,269,455
Other Financing Sources (Non-Exchange):		
Imputed financing costs (Note 13)	16,946,009	19,509,446
Loss on Disposal of Assets	0	(2,223)
Total Financing Sources	**$ 294,075,020**	**$ 304,776,678**
Net Cost of Operations	(292,780,558)	(304,015,079)
Net Change	**$ 1,294,462**	**$ 761,599**
Cumulative Results of Operations (Note 10)	**$ (2,954,778)**	**$ (4,249,240)**
Unexpended Appropriations:		
Beginning Balance	$ 9,487,574	$ 12,994,255
Budgetary Financing Sources:		
Appropriations-received	278,833,000	283,400,000
Appropriations-used	(277,129,011)	(285,269,455)
Recissions & cancelled appropriations	(1,132,839)	(1,637,226)
Total Budgetary Financing Sources	**$ 571,150**	**$ (3,506,681)**
Total Unexpended Appropriations	**$ 10,058,724**	**$ 9,487,574**
Net Position	**$ 7,103,946**	**$ 5,238,334**

The accompanying notes are an integral part of these statements.

National Labor Relations Board
Statement of Budgetary Resources
For the Periods Ended September 30, 2012 and 2011
(in dollars)

	FY 2012	FY 2011
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 4,295,300	$ 4,475,599
Recoveries of prior year unpaid obligations	1,616,889	1,798,665
Other changes in unobligated balance (+ or -)	(605,845)	(1,070,426)
Unobligated balance from prior year budget authority, net	5,306,344	5,203,838
Appropriations (discretionary)	278,306,006	282,833,200
Spending authority from offsetting collections (discretionary)	97,564	411,043
Total Budgetary Resources	**$ 283,709,914**	**$ 288,448,081**
Status of Budgetary Resources:		
Obligations incurred	$ 277,930,709	$ 284,152,781
Unobligated balance, end of year:		
Apportioned	801,263	619,446
Unapportioned	4,977,942	3,675,854
Total unobligated balance, end of year	5,779,205	4,295,300
Total Budgetary Resources	**$ 283,709,914**	**$ 288,448,081**
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	$ 22,105,868	$ 32,060,824
Obligations incurred	277,930,709	284,152,781
Outlays (gross) (-)	(277,578,626)	(292,309,072)
Recoveries of prior year unpaid obligations (-)	(1,616,889)	(1,798,665)
Obligated balance, end of year		
Unpaid obligations, end of year (gross)	20,841,062	22,105,868
Obligated balance, end of year (net)	**$ 20,841,062**	**$ 22,105,868**
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary)	$ 278,403,570	$ 283,244,243
Actual offsetting collections (discretionary) (-)	(97,564)	(411,043)
Budget authority, net (discretionary)	**$278,306,006**	**$282,833,200**
Outlays, gross (discretionary)	$ 277,578,626	$ 292,309,072
Actual offsetting collections (discretionary) (-)	(97,564)	(411,043)
Agency outlays, net (discretionary)	**$ 277,481,062**	**$ 291,898,029**

The accompanying notes are an integral part of these statements.

NOTES TO PRINCIPAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The National Labor Relations Board (NLRB) is an independent federal agency established in 1935 to administer the National Labor Relations Act (NLRA). The NLRA is the principal labor relations law of the United States, and its provisions generally apply to private sector enterprises engaged in, or to activities affecting, interstate commerce. The NLRB's jurisdiction includes the U.S. Postal Service (other government entities, railroads, and airlines are not within the NLRB's jurisdiction). The NLRB seeks to serve the public interest by reducing interruptions in commerce caused by industrial strife. The NLRB does this by providing orderly processes for protecting and implementing the respective rights of employees, employers, and unions in their relations with one another. The NLRB has two principal functions: (1) to determine and implement, through secret ballot elections, free democratic choice by employees as to whether they wish to be represented by a union in dealing with their employers and, if so, by which union; and (2) to prevent and remedy unlawful acts, called unfair labor practices (ULP), by either employers, unions, or both. The NLRB's authority is divided both by law and delegation. The five-member Board (Board) primarily acts as a quasi-judicial body in deciding cases on formal records. The General Counsel investigates and prosecutes ULP charges before administrative law judges, whose decisions may be appealed to the Board; and, on behalf of the Board, conducts secret ballot elections to determine whether employees wish to be represented by a union.

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of the NLRB as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of the NLRB in accordance with accounting principles generally accepted in the United States of America (GAAP), and the form and content requirements of the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements, revised as of August 3, 2012*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the federal government. While the statements have been prepared from the books and records of the NLRB in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. These financial statements present proprietary and budgetary information.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the Agency's net position. Agency assets include both entity assets — those which are available for use by the agency — and non-entity assets — those which are managed by the agency but not available for use in its operations. Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded). The investments made for backpay funds are not recognized on the balance sheet of any federal entity. A note disclosure is required to provide information about its fiduciary activities. See Note 1F, Fiduciary Activities, for additional information.

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the Agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget, dated August 2011*.

The Agency is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the FASAB, which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the federal government. The Federal Financial Management Integrity Act (FFMIA) of 1996 requires the Agency to comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

The FY 2014 Budget of the United States (also known as the President's Budget) with actual numbers for FY 2012 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2013 and will be available from the United States Government Printing Office. There are no differences in the actual amounts for FY 2011 that have been reported in the FY 2013 Budget of the United States and the actual numbers that appear in the FY 2011 Statement of Budgetary Resources.

OMB financial statement reporting guidelines for FY 2012 require the presentation of comparative financial statements for all of the principal financial statements. The NLRB is presenting comparative FY 2012 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources, and these statements have been prepared in accordance with generally accepted accounting principles.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

The information as presented on the Statement of Net Cost is based on the programs below:

Representation Cases are initiated by the filing of a petition by an employee, a group of employees, an individual or labor organization acting on their behalf, or in some cases by an employer. The petitioner requests an election to determine whether a union represents, or in some cases continues to represent, a majority of the employees in an appropriate bargaining unit and therefore should be certified as the employees' bargaining representative. The role of the Agency is to investigate the petition and, if necessary, conduct a hearing to determine whether the employees constitute an appropriate bargaining unit under the NLRA. The NLRB must also determine which employees are properly included in the bargaining unit, conduct the election if an election is determined to be warranted, hear and decide any post-election objections to the conduct of the election and, if the election is determined to have been fairly conducted, to certify its results.

ULP Cases are initiated by individuals or organizations through the filing of a charge with the NLRB. If the NLRB Regional Office believes that a charge has merit, it issues and prosecutes a complaint against the charged party, unless settlement is reached. A complaint that is not settled or withdrawn is tried before an administrative law judge (ALJ), who issues a decision, which may be appealed by any party to the Board. The Board acts in such matters as a quasi-judicial body, deciding cases on the basis of the formal trial record according to the law and the body of case law that has been developed by the Board and the federal courts.

C. Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the NLRB with authority to use funds from the U.S. Treasury (Treasury) to meet operating expense requirements. The NLRB has single year budgetary authority and all unobligated amounts at year-end are expired. At the end of the fifth year, all amounts not expended are canceled. All revenue received from other sources must be returned to the Treasury.

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

Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. Financing Sources

The NLRB receives funds to support its programs through annual appropriations. These funds may be used to pay program and administrative expenses (primarily salaries and benefits, occupancy, travel, and contractual service costs).

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. Appropriations expended for general property, plant and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization).

E. Fund Balance with the Treasury

The NLRB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The agency's records are reconciled with those of Treasury. The fund balances with the Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchases. Funds with the Treasury represent the NLRB's right to draw on the Treasury for allowable expenditures. In addition, funds held with the Treasury also include escrow funds that are not appropriated but are backpay funds that are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. Cash received and the investments made for backpay funds are not recognized on the balance sheet. A note disclosure is required to provide information about its fiduciary activities. See Note 1F., Fiduciary Activities, for further explanation.

See Note 2 for additional information on Fund Balance with Treasury.

F. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, and investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the Federal Government.

Fiduciary activities are not recognized on the proprietary financial statements, but are reported on schedules in the notes to the financial statements. (See SFFAS No. 31, Accounting for Fiduciary Activities).

The fiduciary funds collected by NLRB and held in escrow accounts with the Treasury are funds that are not appropriated but are backpay funds that are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. The NLRB invests funds in federal government securities for backpay that are held in the escrow account at Treasury. Effective for the period beginning after September 30, 2008, the cash received and the investments made for backpay funds will not be recognized on the balance sheet of any federal entity. A note disclosure is still required to provide information about its fiduciary activities. See Note 3, Fiduciary Activities.

The federal government securities include Treasury market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

It is expected that Investments will be held until maturity; therefore they are valued at cost and adjusted for amortization of discounts, if applicable. The discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills). Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

There exists a signed Memorandum of Understanding (MOU) between the NLRB and the Treasury establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

See Note 3 for additional information on Fiduciary Activities.

G. Advances

Advances consist of amounts advanced by the NLRB for the transit subsidy program, United States Postal Service for penalty mail and for commercial payment systems for postage.

See Note 4 for additional information on the Advances.

H. Accounts Receivable, Net of Allowance for Doubtful Accounts

Accounts Receivable primarily consists of health benefit premiums due the NLRB from Agency employees. Accounts receivable are stated net of allowance for doubtful accounts. The allowance is estimated based on an aging of account balances, past collection experience, and an analysis of outstanding accounts at year-end.

See Note 5 for additional information on Accounts Receivable.

I. General Property, Plant and Equipment

General property, plant and equipment consist primarily of telephone systems, computer hardware and software.

The Agency has no real property. General property, plant and equipment with a cost of $15,000 or more per unit is capitalized at cost and depreciated using the straight-line method over the useful life. Other property items are expensed when purchased. Expenditures for repairs and maintenance are charged to operating expenses as incurred. The useful life for this category is five to twelve years. There are no restrictions on the use or convertibility of general property, plant and equipment.

Internal Use Software. Internal use software (IUS) includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by Agency employees. IUS is capitalized at cost if the acquisition cost is $100,000 or more. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life is two to five years for calculating amortization of software using the straight-line method.

Internal Use Software in Development. Internal use software in development is software that is being developed, but not yet put into production. At the time the software is moved into production the costs will be moved into the IUS account described above. The NLRB is currently undertaking a major software development project called the Next Generation Case Management System (NXGen) that will replace a number of case tracking systems with one enterprise-wide system. NXGen will support the President's Management Agenda, such as for e-Gov, E-Filing, e-FOIA, and public Web-based access to NLRB data. This project has been a multiple year undertaking in which a large portion of the system was rolled out in FY 2011. The overall cost of this project is expected to exceed $14 million.

See Note 6 for additional information on General Property, Plant and Equipment, Net.

J. Non-Entity Assets

Assets held by the NLRB that are not available to the NLRB for obligation are considered non-entity assets.

See Note 9 for additional information on Non-Entity Assets.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the NLRB as the result of a transaction or event that has already occurred. However, no liability can be paid by the NLRB absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that the appropriation will be enacted. Also, liabilities of the NLRB arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

L. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by the NLRB as the result of a transaction or event that has already occurred. Liabilities not covered by budgetary resources result from the receipts of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods for which appropriations, revenues, or other financing sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of the NLRB which had not been billed or paid by the NLRB as of September 30, 2012 and 2011, respectively.

See Notes 8 and 10 for additional information on intragovernmental liabilities not covered by budgetary resources.

Federal Employees Workers' Compensation Program.

The Federal Employees Workers' Compensation Program (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by DOL, which pays valid claims and subsequently seeks reimbursement from the NLRB for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the NLRB. The NLRB reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a two- to three-year time period between payment by DOL and reimbursement by the NLRB. As a result, the NLRB recognizes a liability for the actual claims paid by DOL and to be reimbursed by the NLRB.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. The NLRB determines this component annually, as of September 30, using a method that considers historical benefit payment patterns.

The NLRB uses the methodology of reviewing the ages of the claimant on a case-by-case basis (because of the small number of claimants) to evaluate the estimated FECA liability. The determination was made to use the life expectancy of claimants of 80 and 84 years for male and female, respectively.

See Notes 8 and 10 for additional information on the FECA liability.

Accrued Annual Leave

Accrued annual leave represents the amount of annual leave earned by the NLRB employees but not yet taken. See Notes 8 and 10 for additional information on Accrued Annual Leave.

M. Contingencies

The criteria for recognizing contingencies for claims are:

1. a past event or exchange transaction has occurred as of the date of the statements;
2. a future outflow or other sacrifice of resources is probable; and
3. the future outflow or sacrifice of resources is measurable (reasonably estimated).

The NLRB recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

Contingencies are recorded when losses are probable, and the cost is measurable. When an estimate of contingent losses includes a range of possible costs, the most likely cost is reported; where no cost is more likely than any other, the lowest possible cost in the range is reported. This item will normally be paid from appropriated funds.

See Note 16 for additional information on Contingencies.

N. Unexpended Appropriations

Unexpended appropriations represent the amount of the NLRB's unexpended appropriated spending authority as of the fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded, or withdrawn.

O. Annual, Sick, and Other Leave

Annual and Sick Leave Program.

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

See Note 10 for additional information on Annual Leave.

P. Life Insurance and Retirement Plans

Federal Employees Group Life Insurance (FEGLI) Program.

Most NLRB employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and the NLRB paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. The Office of Personnel Management (OPM) administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage. Because the NLRB's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the NLRB has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source.

Retirement Programs.

The NLRB employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most of the NLRB employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS. The NLRB contributes a matching contribution equal to 7 percent of pay for CSRS employees.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Agency and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Agency is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system and to match voluntary employee contributions up to 3 percent of the employee's basic pay, and one-half of contributions between 3 percent and 5 percent of basic pay. For FERS employees, the Agency also contributes the employer's share of Medicare. The maximum amount of base pay that an employee participating in FERS may contribute is $17,500 in calendar year (CY) 2013 to this plan. Employees belonging to CSRS may also contribute up to $17,500 of their salary in CY 2013 and receive no matching contribution from the NLRB. The maximum for catch-up contributions for CY 2013 is $5,500. For CY 2013, the regular and catch-up contributions may not exceed $22,500. The sum of the employees' and the NLRB's contributions are transferred to the Federal Retirement Thrift Investment Board.

OPM is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government-wide, including the NLRB employees. The NLRB has recognized an imputed cost and imputed financing source for the difference between the estimated service cost and the contributions made by the NLRB and covered CSRS employees.

The NLRB does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM. The portion of the current and estimated future outlays for CSRS not paid by the NLRB is, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government, included in the NLRB's financial statements as an imputed financing source.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits and the FEGLI programs are reported by OPM rather than the NLRB.

SFFAS No. 5, Accounting for Liabilities of the Federal Government, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information was also provided by OPM regarding the full cost of health and life insurance benefits.

In FY 2012, the NLRB, utilizing OPM provided cost factors, recognized $7,135,213 of pension expenses, $9,782,740 of post-retirement health benefits expenses, and $28,056 of post-retirement life insurance

expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of $16,946,009 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.
In comparison, in FY 2011, the NLRB, recognized $9,014,600 of pension expenses, $10,465,886 of post-retirement health benefits expenses, and $28,960 of post-retirement life insurance expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of $19,509,446 as an imputed financing source from OPM

See Note 13 for additional information.

Q. Operating Leases

The NLRB has no capital lease liability or capital leases. Operating leases consist of real and personal property leases with the General Services Administration (GSA). Regarding NLRB's building lease, the GSA entered into a lease agreement for the NLRB's rental of building space. The NLRB pays GSA a standard level users charge for the annual rental. The standard level users charge approximates the commercial rental rates for similar properties. The NLRB is not legally a party to any building lease agreements, so it does not record GSA-owned properties. The real property leases are for NLRB's Headquarters and Regional Offices and the personal property leases are for GSA cars.

See Note 12 for additional information on Operating Leases.

R. Net Position

Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net result of the NLRB's operations since inception.

S. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

T. Tax Status

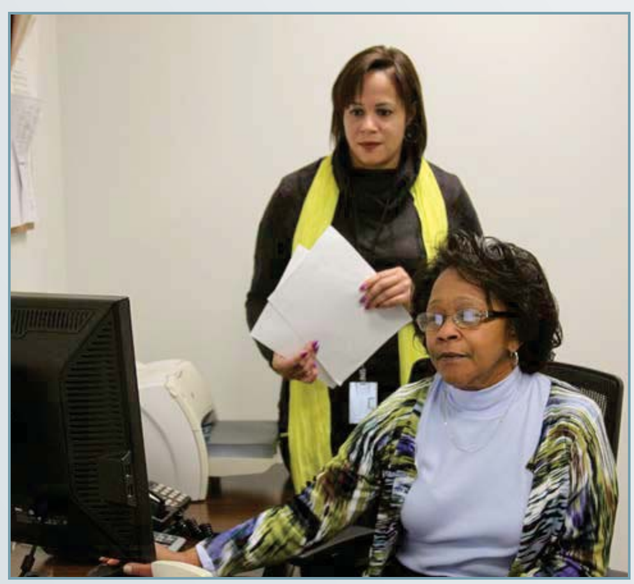
The NLRB, as an independent Board of the Executive Branch, a federal agency, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income tax is recorded.

U. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

V. Subsequent Events

Subsequent events and transactions occurring after September 30, 2012 through the date of the auditor's opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.



Note 2. Fund Balance with Treasury

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the NLRB to draw down funds from Treasury for expenses and liabilities. Fund Balance with Treasury by fund type as of September 30, 2012 and September 30, 2011 consists of the following:

Fund Balance with Treasury by Fund Type:

(in thousands)	General Funds	Escrow Funds	Total Fund Balance with Treasury
FY 2012 Entity Assests	$ 26,620		$ 26,620
Non-Entity Assets		210	210
Total	**$ 26,620**	**$ 210**	**$ 26,830**
FY 2011 Entity Assests	$ 26,401		$ 26,401
Non-Entity Assets		84	84
Total	**$ 26,401**	**$ 84**	**$ 26,485**

The status of the fund balance may be classified as unobligated available, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance includes amounts appropriated in prior fiscal years, which are not available to fund new obligations. The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received or goods and services received but for which payment has not yet been made.

Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported on the Statement of Budgetary Resources because the Fund Balance with Treasury includes items for which budgetary resources are not recorded, such as deposit funds and miscellaneous receipts.

Status of Fund Balance with Treasury as of September 30, 2012 and September 30, 2011 consists of the following:

Fund Balance with Treasury by Availability:

(in thousands)	FY 2012	FY 2011
Unobligated Balance		
Available	$ 801	$ 619
Unavailable	4,978	3,676
Obligated balance not yet disbursed	20,841	22,106
Non-budgetary fund balance with Treasury	210	84
Totals	**$ 26,830**	**$ 26,485**

Note 3. Fiduciary Activities

Effective for the period beginning after September 30, 2008, the cash received and the investments made for backpay funds will not be recognized on the balance sheet of any federal entity. A note disclosure is still required to provide information about its fiduciary activities. See Note 1F, Fiduciary Activities, for further explanation.

Backpay funds are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. NLRB holds these funds in an escrow account with Treasury or invests the funds that are authorized by the Regional Compliance Officers and other management officials in market-based Treasury securities issued by the Federal Investment Branch of the Bureau of Public Debt.

There exists a signed MOU between the NLRB and the U.S. Treasury (Treasury) establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

Schedule of Fiduciary Activity

As of September 30, 2012 and 2011

(in thousands)	FY 2012	FY 2011
Fiduciary net assets, beginning of the year	$ 3,356	$ 2,779
Fiduciary revenues	7,572	6,685
Investment earnings	0	0
Disbursements to and on the behalf of beneficiaries	(5,725)	(6,108)
Increase (Decrease) in fiduciary net assets	$ 1,847	$ 577
Fiduciary net assets, end of year	**$ 5,203**	**$ 3,356**

Fiduciary Net Assets

As of September 30, 2012 and 2011

(in thousands)	FY 2012	FY 2011
Fiduciary Assets		
Cash and cash equivalents	$ 5,203	$ 3,131
Investments	0	225
Fiduciary Liabilities		
Less: Liabilities	0	0
Total Fiduciary net assets	**$ 5,203**	**$ 3,356**

Note 4. Advances

Intragovernmental

Intragovernmental Advances to the United States Postal Service (USPS) for September 30, 2012 were $7,983 and $12,513 for September 30, 2011. The remainder of the balance for FY 2012 and FY 2011 was with the Department of Transportation for the transit subsidy.

Note 5. Accounts Receivable, Net of Allowances for Doubtful Accounts

The FY 2012 intragovernmental accounts receivable is zero and the FY 2011 amount was also zero:

(in thousands)	FY 2012	FY 2011
With the public		
Accounts receivable	$ 80	$ 56
Allowance doubtful accounts	(3)	(2)
Accounts receivable-net	**$ 77**	**$ 54**

Note 6. General Property, Plant and Equipment, Net

General property, plant and equipment consist of that property which is used in operations and consumed over time. The table below summarizes the cost and accumulated depreciation for general property, plant and equipment.

Depreciation expense for the years ended September 30, 2012 and September 30, 2011 was $3,921,165 and $3,783,870 (in dollars), respectively.

(in thousands) FY 2012	Asset Cost	Accumulated Depreciation/ Amortization	Net Asset Value
Equipment	$ 2,667	$ 2,384	$ 283
Internal Use Software	21,859	13,323	8,536
Internal Use Software in Development	4,709	–	4,709
Totals	**$ 29,235**	**$ 15,707**	**$ 13,528**

(in thousands) FY 2011	Asset Cost	Accumulated Depreciation/ Amortization	Net Asset Value
Equipment	$ 2,438	$ 2,104	$ 334
Internal Use Software	19,664	9,682	9,982
Internal Use Software in Development	2,388	0	2,388
Totals	**$ 24,490**	**$ 11,786**	**$ 12,704**

Note 7. Intragovernmental Accounts Payable

These accounts payables are with our federal trading partners of whom the largest amounts are with the General Services Administration (GSA).

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The custodial liability represents amounts collected from the public for court costs, freedom of information requests and other miscellaneous amounts that must be transferred to the Treasury.

The composition of liabilities not covered by budgetary resources as of September 30, 2012 and September 30, 2011, is as follows:

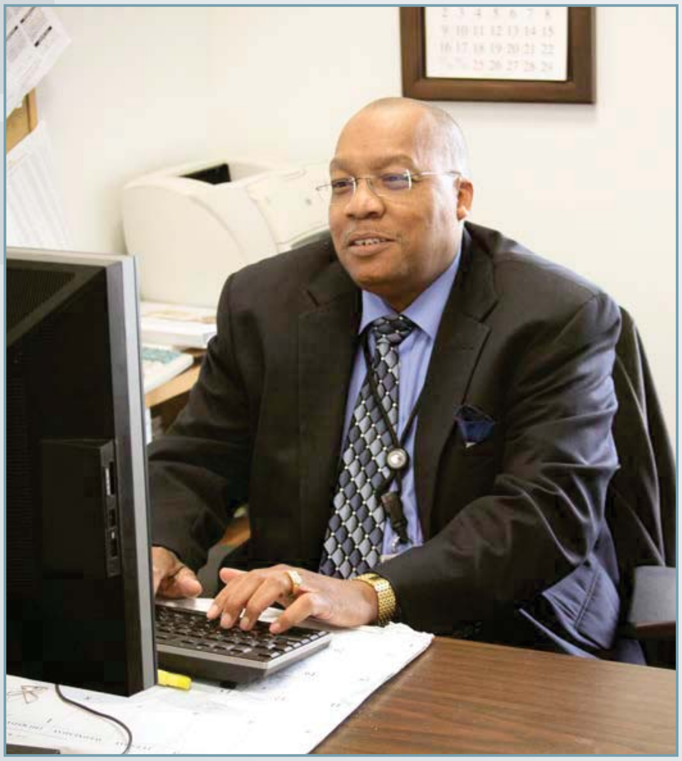
(in thousands)	FY 2012	FY 2011
Intragovernmental:		
FECA-Unfunded	$ 765	$ 583
Total Intragovernmental	765	583
Estimated Future – FECA	1,631	1,278
Accrued Annual Leave	14,164	15,146
Total Liabilities not covered by budgetary resources	16,560	17,007
Total Liabilities covered by budgetary resources	16,957	17,075
Total Liabilities	**$ 33,517**	**$ 34,082**

Note 9. Non-Entity Assets

Non-Entity assets, restricted by nature, consist of miscellaneous receipt accounts. These amounts represent cash collected and accounts receivable (net of allowance for doubtful accounts). The miscellaneous receipts represent court costs and freedom of information requests that must be transferred to the Treasury.

The composition of non-entity assets as of September 30, 2012 and September 30, 2011, is as follows:

(in thousands)	FY 2012	FY 2011
Non-entity assets		
Fund Balance with Treasury	$ 210	$ 84
Entity assets	$ 40,410	$ 39,236
Total Assets	**$ 40,620**	**$ 39,320**



Note 10. Cumulative Results of Operations

(in thousands)	FY 2012	FY 2011
FECA paid by DOL	$ (262)	$ (269)
FECA – Unfunded	(765)	(583)
Estimated Future FECA	(1,631)	(1,279)
Accrued Annual Leave	(14,164)	(15,146)
General Property, Plant & Equipment, Net	13,528	12,704
Other	339	324
Cumulative Results of Operations	**$ (2,955)**	**$ (4,249)**

Note 11. Intragovernmental Costs and Exchange Revenue

For the intragovernmental costs, the buyer and seller are both federal entities. The earned revenue is the reimbursable costs from other federal entities. The NLRB provided administrative law judges' services to other federal entities. There is no exchange revenue with the public.

(in thousands)	FY 2012	FY 2011
Resolve Representation Cases		
Intragovernmental Costs	$ 9,285	$ 9,953
Costs with the Public	38,740	39,869
Total Net Cost - Resolve Representation Cases	**$ 48,025**	**$ 49,822**
Resolve Unfair Labor Practices		
Intragovernmental Costs	$ 46,973	$ 50,356
Costs with the Public	197,783	203,837
Total Net Cost - Resolve Unfair Labor Practices	**$ 244,756**	**$ 254,193**
Other		
Intragovernmental Costs	$ 11	$ 18
Less: Intragovernmental Earned Revenue	11	18
Total Net Cost - Other	**$ 0**	**$ 0**
Net Cost of Operations	**$ 292,781**	**$ 304,015**

Note 12. Operating Leases

GSA Real Property. Most of NLRB's facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. The terms of NLRB's occupancy agreements (OA) with GSA will vary according to whether the underlying assets are owned by GSA or another federal agency or rented by GSA from the private sector. The NLRB has OAs with GSA, which sets forth terms and conditions for the space the Agency will occupy for an extended period of time. Included within the OAs are 120 to 180 day notification requirements for the Agency to release space. For purposes of disclosing future operating lease payments in the table below, federally-owned leases are included in years FY 2013 through FY 2017.

Rental expenses for operating leases for the year ended September 30, 2012 were $25,608,420 for Agency lease space and $2,545,861 for Agency building security. For FY2011 the operating lease costs were $26,741,352 and the Agency building security portion was $2,697,132.

Fiscal Year (in thousands)	**GSA Real Property**
2013	$ 26,249
2014	26,905
2015	27,577
2016	28,267
2017	28,974
Total Future Lease Costs	**$ 137,972**

Note 13. Imputed Financing Costs

OPM pays pension and other future retirement benefits on behalf of federal agencies for federal employees. OPM provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of federal agencies. The costs of these benefits are reflected as imputed financing in the consolidated financial statements. Expenses of the NLRB paid or to be paid by other federal agencies at September 30, 2012 and 2011 consisted of:

(in thousands)	**FY 2012**	**FY 2011**
Office of Personnel Management:		
Pension expenses	$ 7,135	$ 9,015
Federal employees health benefits	9,783	10,465
Federal employees group life insurance program	28	29
Total Imputed Financing	**$16,946**	**$19,509**

Note 14. Appropriations Received

The NLRB received $278,833,000 and $283,400,000 in warrants for the fiscal years ended September 30, 2012 and 2011, respectively. The amount shown on the Statement of Budgetary Resources under caption "Permanently not available" for FY 2012 was the cancelled appropriation for FY 2007 for the amount of $ 605,845 and the rescission amount of $526,994 for fiscal year FY2012. For FY2011, the total amount was $1,070,426 for the cancelled appropriation for FY 2006 and rescission amount was $566,800 for FY2011.

Note 15. Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into GAAP for the Federal Government. The total Budgetary Resources of $283,709,914 as of September 30, 2012 and $288,448,081 as of September 30, 2011, includes new budget authority, unobligated balances at the beginning of the year, spending authority from offsetting collections, recoveries of prior year obligations and permanently not available. The NLRB's unobligated balance available at September 30, 2012 was $801,263 and at September 30, 2011 was $619,446.

Apportionment Categories of Obligations Incurred. NLRB's obligations incurred as of September 30, 2012 and September 30, 2011 by apportionment Category A and B is shown in the following table. Category A apportionments distribute budgetary resources by fiscal quarters and Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories. Beginning in FY 2010, OMB agreed that it was not necessary for NLRB to separate its information technology funding and therefore all obligations incurred were from one funding category.

(in thousands)	Apportioned		Not Subject to Apportionment	Total
FY 2012	**Category A**	**Category B**		
Obligations Incurred:				
Direct	$ 277,920	–	–	$ 277,920
Reimbursable	11	–	–	11
Total Obligations Incurred	**$ 277,931**	**–**	**–**	**$ 277,931**

(in thousands)	Apportioned		Not Subject to Apportionment	Total
FY 2011	**Category A**	**Category B**		
Obligations Incurred:				
Direct	$ 284,135	–	–	$ 284,135
Reimbursable	18	–	–	18
Total Obligations Incurred	**$ 284,153**	**–**	**–**	**$ 284,153**

Note 16. Contingencies

The NLRB is involved in various lawsuits incidental to its operations. There are 2 cases involving NLRB employees, that have a reasonable possibility of an unfavorable outcome and fees may be in excess of $100,000 but not more than $200,000. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a materially adverse effect on the financial position of NLRB.

Note 17. Reconciliation of Net Cost of Operations to Budget

For the Month Ended September 30, 2012 and 2011

(in thousands)	FY 2012	FY 2011
Resources Used to Finance Activities		
Current Year Gross Obligations	**$ 277,931**	**$ 284,153**
Budgetary Resources from Offsetting Collections:		
Spending Authority from Offsetting Collections		
Earned		
Collected	(98)	(411)
Recoveries of Prior Year Unpaid Obligations	(1,617)	(1,799)
Other Financing Resources:		
Imputed Financing Sources	16,946	19,509
Other	-	(2)
Total Resources Used to Finance Activity	$ 293,162	$ 301,450
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Budgetary Obligations and Resources not in the Net Cost of Operations:		
Change in Undelivered Orders	913	3,326
Current Year Capitalized Purchases	(4,745)	(4,141)
Components of the Net Cost of Operations which do not Generate or Use Resources in the Reporting Period Revenues without Current Year Budgetary Effect:		
Other Financing Sources Not in the Budget	(16,946)	(19,509)
Costs without Current Year Budgetary Effect:		
Depreciation and Amortization	3,921	3,784
Disposition of Assets	0	2
Future Funded Expenses	(800)	22
Imputed costs	16,946	19,509
Bad Debt Expense	8	6
Other Expenses Not Requiring Budgetary Resources	322	(434)
Net Cost of Operations	**$ 292,781**	**$ 304,015**