Office of Inspector General

Financial Statement Audit

Financial Statement Audit of the Federal Labor Relations Authority

Fiscal Year 2012

Report No. AR-13-01

November 2012

Federal Labor Relations Authority
1400 K Street, N.W. Suite 250, Washington, D.C. 20424

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DEMBO·JONES
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Chairman Pope:

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2012 and 2011, and the related statements of net cost and changes in net position, and statement of budgetary resources, for the years then ended. In our audits of the Federal Labor Relations Authority for the fiscal years September 30, 2012 and 2011, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses or significant deficiencies in internal control over financial reporting (including safeguarding assets),
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other accompanying information, and (3) our audit objectives, scope, and methodology.

Opinion on Financial Statements

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Federal Labor Relations Authority's assets, liabilities, and net position as of September 30, 2012 and 2011; and net costs; changes in net position; and budgetary resources for the years then ended.

Consideration of Internal Control

In planning and performing our audit, we considered the Federal Labor Relations Authority's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on internal control and compliance or on management's assertion on internal control included in MD&A. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above.

We noted other non-reportable matters involving internal control and its operation that we will communicate in a separate management letter to FLRA management.

Compliance With Laws and Regulations

Our tests of the Federal Labor Relations Authority's compliance with selected provisions of laws and regulations for fiscal year 2012 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

The information in the Management's Discussion and Analysis is not a required part of the 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 Chairman's Message, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Objectives, Scope, and Methodology

The Federal Labor Relations Authority's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing with the Annual Financial Statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the FLRA and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance with selected provisions of laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Federal Labor Relations Authority. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the Federal Labor Relations Authority's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB guidance.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

Rockville, Maryland
November 15, 2012

FINANCIAL SECTION

Federal Labor Relations Authority
BALANCE SHEET
(in dollars)

As of September 30, 2012 and 2011

	2012	**2011**
Assets:		
Intragovernmental:		
Fund balance with the Treasury (Note 2)	$4,525,133	$6,532,013
Accounts receivable (Note 3)	1,335	17,021
Advances and prepayments	21,414	11,212
Total intragovernmental	4,547,882	6,560,246
Accounts receivable from the public, net (Note 3)	12,172	5,243
General property and equipment, net (Note 4)	353,163	525,753
Total Assets	**$4,913,217**	**$7,091,242**
Liabilities:		
Intragovernmental:		
Accounts payable	$40,857	$21,764
Unfunded FECA liability (Note 5)	240,761	239,011
Custodial liability	38	76
Total intragovernmental	281,656	260,851
Accounts payable	184,639	210,917
FECA actuarial liability (Note 5)	1,185,256	1,141,306
Unfunded leave (Note 5)	1,519,345	1,513,590
Accrued payroll and benefits	1,207,777	1,280,740
Other (Note 6)	2	4
Total Liabilities	**$4,378,675**	**$4,407,408**
Net Position:		
Unexpended appropriations – other funds	$3,117,955	$5,016,802
Cumulative results of operations – other funds	(2,583,413)	(2,332,968)
Total Net Position	**$534,542**	**$2,683,834**
Total Liabilities and Net Position	**$4,913,217**	**$7,091,242**

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority
STATEMENT OF NET COST
(in dollars)

For the Years Ended September 30, 2012 and 2011

	2012	**2011**
Gross Program Costs:		
Authority:		
Intragovernmental costs	$4,037,251	$3,869,249
Public costs	10,735,958	11,498,999
Total costs	14,773,209	15,368,248
Intragovernmental earned revenue	(1,223)	(5,580)
Public earned revenue	(3,144)	(4,398)
Less: Total earned revenue	(4,367)	(9,978)
Net Program Costs	**$14,768,842**	**$15,358,270**
Office of the General Counsel:		
Intragovernmental costs	$0	$60
Public costs	10,816,099	10,809,060
Total costs	10,816,099	10,809,120
Intragovernmental earned revenue	(24,924)	(52,461)
Public earned revenue	(9,218)	(13,924)
Less: Total earned revenue	(34,142)	(66,385)
Net Program Costs	**$10,781,957**	**$10,742,735**
Federal Service Impasses Panel:		
Intragovernmental costs	$0	$0
Public costs	791,422	689,940
Total costs	791,422	689,940
Intragovernmental earned revenue	(643)	(1,527)
Public earned revenue	(548)	(797)
Less: Total earned revenue	(1,191)	(2,324)
Net Program Costs	**$790,231**	**$687,616**
Net Cost of Operations	**$26,341,030**	**$26,788,621**

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority
STATEMENT OF CHANGES IN NET POSITION
(in dollars)

For the Years Ended September 30, 2012 and 2011

	2012	**2011**
Cumulative Results of Operations:		
Beginning balance	$(2,332,968)	$(2,138,396)
Budgetary financing sources:		
Appropriations used	24,594,738	24,931,853
Non-exchange revenue	(2)	(4)
Other financing sources (non-exchange):		
Transfers in/out without reimbursement	0	(24,675)
Imputed financing	1,495,849	1,686,875
Total financing sources	26,090,585	26,594,049
Net cost of operations	(26,341,030)	(26,788,621)
Net change	(250,445)	(194,572)
Cumulative Results of Operations	**$(2,583,413)**	**$(2,332,968)**
Unexpended Appropriations:		
Beginning balance	$5,016,802	$6,901,675
Budgetary financing sources:		
Appropriations received	24,723,000	24,773,000
Other adjustments	(2,027,109)	(1,726,020)
Appropriations used	(24,594,738)	(24,931,853)
Total budgetary financing sources	(1,898,847)	(1,884,873)
Total Unexpended Appropriations	**$3,117,955**	**$5,016,802**
Net Position	**$534,542**	**$2,683,834**

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority
STATEMENT OF BUDGETARY RESOURCES
(in dollars)

For the Years Ended September 30, 2012 and 2011

	2012	**2011**
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$3,253,030	$4,876,678
Recoveries of prior year unpaid obligations	611,555	46,400
Other changes in unobligated balance	(2,027,109)	(1,726,020)
Unobligated balance from prior year budget authority, net	1,837,476	3,197,058
Appropriation	24,723,000	24,773,000
Spending authority from offsetting collections	46,053	79,330
Total Budgetary Resources	**$26,606,529**	**$28,049,388**
Status of Budgetary Resources:		
Obligations incurred (Note 10)	$24,759,055	$24,796,358
Unobligated balance, end of year:		
Apportioned	63,518	53,918
Unapportioned	1,783,956	3,199,112
Total obligated balance, end of year	1,847,474	3,253,030
Total Budgetary Resources	**$26,606,529**	**$28,049,388**
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1	$3,285,463	$3,514,395
Uncollected customer payments from Federal sources, brought forward, October 1	(6,559)	(8,466)
Obligated balance, start of year (net)	3,278,904	3,505,929
Obligations incurred	24,759,055	24,796,358
Outlays (gross)	(24,740,405)	(24,978,891)
Change in uncollected customer payments from Federal sources	(8,378)	1,908
Recoveries of prior year unpaid obligations	(611,555)	(46,400)
Obligated balance, end of year:		
Unpaid obligations, end of year (gross)	2,692,558	3,285,463
Uncollected customer payments from Federal sources, end of year	(14,937)	(6,559)
Obligated Balance, End of Year (Net)	**$2,677,621**	**$3,278,904**
Budget Authority and Outlays, Net:		
Budget authority, gross	$24,769,053	$24,852,330
Actual offsetting collections	(37,675)	(81,238)
Change in uncollected customer payments from Federal sources	(8,378)	1,908
Budget Authority, Net	**$24,723,000**	**$24,773,000**
Outlays, gross	$24,740,405	$24,978,891
Actual offsetting collections	(37,675)	(81,238)
Outlays, net	24,702,730	24,897,653
Agency Outlays, Net	**$24,702,730**	**$24,897,653**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

(a) Reporting Entity **–** The FLRA is an independent administrative Federal agency created by Title VII of the Civil Service Reform Act of 1978, with a mission to carry out five statutory responsibilities: (1) determining the appropriateness of units for labor organization representation; (2) resolving complaints of unfair labor practices; (3) adjudicating exceptions to arbitrators' awards; (4) adjudicating legal issues relating to duty to bargain; and (5) resolving impasses during negotiations. The agency consists of three components: the Authority, the Office of the General Counsel, and the Federal Service Impasses Panel.

(b) Basis of Accounting and Presentation **–** The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the FLRA in accordance with the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Accountability of Tax Dollars Act of 2002. The statements have been prepared from agency financial records in accordance with U.S. Generally Accepted Accounting Principles (GAAP), in accordance with guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB), as prescribed in OMB Circular A-136, *Financial Reporting Requirements*, and pursuant to the requirements of 31 U.S.C. 3515(b). These financial statements include all funds and accounts under the control of the FLRA.

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 incurred, without regard to the 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 occurs before an accrual-based transaction takes place. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Budget Authority **–** The Congress passes appropriations annually that provide the FLRA with authority to obligate funds for necessary salaries and expenses to carry out mandated program activities. These funds are available until expended, subject to OMB apportionment and to Congressional restrictions on the expenditure of funds. Also, the FLRA places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds.

(d) Fund Balance with the Treasury **–** FLRA receipts and disbursements are processed by the Department of the Treasury. Fund balances with the Treasury consist of appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. No cash is held in commercial bank accounts.

(e) Accounts Receivable **–** Accounts receivable consists of amounts due from other Federal entities and from current and former employees and vendors. Amounts due from the public are stated net of an allowance for uncollectible accounts that is based on an analysis of outstanding receivables balances and past collection experience. No allowance is established for intragovernmental receivables, as they are considered fully collectible from other Federal agencies.

(f) ***General Property and Equipment (P&E)*** **–** This category consists of equipment and internal use software. The basis for recording purchased P&E is full cost, including all costs incurred to bring FLRA P&E to and from a location suitable for its intended use. P&E is depreciated using the straight-line method over the estimated useful life of the asset. Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, provides accounting standards for internal use software used by each agency. The standards provide for capitalized property to continue to be reported on the Balance Sheet. P&E that are not capitalized because they are under the capitalization threshold are expensed in the year of acquisition.

The FLRA's capitalization threshold for individual purchases is $25,000. Bulk purchases of similar items that individually are worth less than $25,000, but collectively are worth more than $100,000 are also capitalized using the same general P&E categories and useful lives as capital acquisitions. Major building alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred.

General P&E Category	Service Life
Software	3 years
Computer equipment	5 years
Office equipment	7 years
Office furniture	15 years
Leasehold improvements	Life of lease

(g) ***Liabilities*** – Liabilities represent the amount of monies or other resources likely to be paid by FLRA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Federal government, acting in its sovereign capacity, can abrogate liabilities other than contracts. Liabilities that are covered by budgetary resources consist of intragovernmental and public accounts payable and accrued funded payroll. Liabilities not covered by budgetary resources in FY 2011 and FY 2012 consist of accrued and actuarial Federal Employees Compensation Act (FECA) compensation and unfunded employee leave.

(h) ***FECA Liabilities*** **–** An accrued FECA liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the FECA. The actual costs incurred are reflected as a liability because agencies will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used for their reimbursement to the DOL. The liability consists of: (1) the net present value of estimated future payments calculated by the DOL; and (2) the un-reimbursed cost paid by the DOL for compensation to recipients under the FECA.

An estimated actuarial liability for future workers' compensation benefits is included. The liability estimate is based on the DOL's FECA actuarial model that takes the amount of benefit payments over the last twelve quarters and calculates the annual average of payments for medical expenses and compensation. This average is then multiplied by the liabilities-to-benefits paid ratios for the whole FECA program for FY 2012. The ratios may vary from year to year as a result of economic assumptions and other factors, but the model calculates a liability approximately eleven times the annual payments.

(i) Annual, Sick and Other Leave – Amounts associated with the payment of annual leave are accrued while leave is being earned by employees, and this accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to finance annual leave, future financing sources will be used. Sick leave and other types of non-vested leave are expensed as taken. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employees Retirement System (FERS)-covered employees.

(j) Accounts Payable and Other Accrued Liabilities **–** Accounts payable and accrued liabilities represent a probable future outflow or other sacrifices 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. FLRA liabilities cannot be liquidated without legislation that provides resources to do so. Certain reclassifications of prior-year accounts payable balances have been made in the financial statements to make disclosures consistent with those of the current year.

(k) Net Position – The components of net position are unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances. Undelivered orders reflect the amount of goods and services ordered that have yet to be actively or constructively received. 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 represent the net results of operations since inception, the cumulative amount of prior-period adjustments, the remaining book value of capitalized assets, and future funding requirements.

(l) Retirement Plans **–** The FLRA's employees participate in the CSRS or the FERS. For CSRS employees, hired prior to January 1, 1984, the FLRA withholds seven percent of each employee's salary and contributes seven percent of the employee's basic salary to the CSRS Retirement and Disability Fund. These employees may also contribute, on a tax-deferred basis, to a defined contribution plan – the Thrift Savings Plan (TSP). In 2011, the regular Internal Revenue Service limit was $16,500; the limit was increased to $17,000 in FY 2012.

The FLRA is not required to and does not contribute any matching amounts for CSRS employees.

The FERS was established by enactment of Public Law 99-335. Pursuant to this law, the FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected either to join the FERS and Social Security or to remain in the CSRS. For FERS employees, the FLRA withholds 6.2 percent in old age survivors and disability insurance up to a specified wage ceiling and 0.8 percent of an employee's gross earnings for retirement. In FY 2012, the FLRA matched the retirement withholdings with a contribution equal to 11.9 percent of the employee's taxable salary.

All employees are eligible to contribute to the TSP. For employees under the FERS, a TSP account is automatically established. The FLRA is required to make a mandatory contribution of one percent of the base salary for each employee under the FERS. The agency is required to match the employee's contribution up to a maximum of five percent of his or her salary. Matching contributions are not made to the TSP accounts established by CSRS employees. The FLRA does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. CSRS employees who are 65 or older are eligible for Social Security payments (even if they have not retired). In these instances, the FLRA remits the employer's share of the required contribution.

(m) ***Imputed Financing from Costs Absorbed by Others –*** The FASAB's SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employer agencies recognize the full cost of pension, health, and life insurance benefits during their employees' active years of service. The OPM, as administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. An imputed financing source and corresponding imputed personnel cost is reflected in the Statement of Changes in Net Position and the Statement of Net Cost, respectively.

(n) ***Revenue and Other Financing Sources*** – The FLRA's revenues are derived from reimbursable agreements (exchange) and a direct, annual appropriation (financing source). The FLRA recognizes reimbursable work agreement revenue when earned, i.e., goods have been delivered or services that have been rendered. Each reimbursable work agreement specifies the dollar value of the agreement and is based on estimated resources needed to perform the specified services, whether it is personnel services, including base pay, overtime and benefits, or travel and per diem.

The agency receives an annual Salaries and Expenses appropriation from the Congress. Annual appropriations are used, within statutory limits, for salaries and administrative expenses and for operating and capital expenditures for essential personal property. Appropriations are recognized as non-exchange revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations. The FLRA's annual appropriation for FY 2011 was $24,773,000, which was reduced by $49,546 pursuant to a 0.2 percent across-the-board rescission included in Public Law 112-10. The agency's annual appropriation for FY 2012 was $24,723,000.

(o) ***Expired Accounts and Cancelled Authority*** **–** Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled and any remaining money is returned to the Treasury.

(p) ***Transactions with Related Parties*** **–** In the course of its operations, the FLRA has relationships and conducts financial transactions with numerous Federal agencies. The most prominent of these relationships are with the Treasury, the DOL, the Department of the Interior, the Department of Transportation, the Department of Homeland Security, and the General Services Administration.

(q) ***Contingencies*** **–** A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to the agency. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable.

(r) ***Use of Estimates*** **–** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) ***Advances and Prepayments*** **–** Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepayments at the time of the prepayments and recognized as expenses when the related goods and services are received.

Note 2: Fund Balance with the Treasury

U.S. government cash is accounted for on an overall consolidated basis by the Treasury. The amounts shown on the Balance Sheet represent the FLRA's right to draw on the Treasury for valid expenditures. The fund balance as shown on the FLRA records is reconciled monthly with records from the Treasury.

Fund Balance with the Treasury		
As of September 30,	**2012**	**2011**
General funds	$4,525,095	$6,531,934
Other fund types	38	79
Total	**$4,525,133**	**$6,532,013**

Status of Fund Balance with the Treasury		
As of September 30,	**2012**	**2011**
Unobligated balance available	$63,518	$53,918
Unobligated balance unavailable	1,783,956	3,199,112
Obligated balance not yet distributed	2,677,621	3,278,904
Non-budgetary fund balance with the Treasury	38	79
Total	**$4,525,133**	**$6,532,013**

Note 3: Accounts Receivable, Net

The reported amount for accounts receivable consists of amounts owed to the FLRA by other Federal agencies (intragovernmental) and the public.

Accounts Receivable, Net		
As of September 30,	**2012**	**2011**
From Federal agencies, net	$1,335	$17,021
From the public, net	12,172	5,243
Total	**$13,507**	**$22,264**

Amounts Due from Other Federal Agencies		
As of September 30,	**2012**	**2011**
Department of Defense	$0	$1,123
Department of Homeland Security	1,335	0
Department of Justice	0	407
Environmental Protection Agency	0	1,096
United States Postal Service	0	14,395
Total	**$1,335**	**$17,021**

Note 4: General Property and Equipment, Net

Category	Service Life	Acquisition Value	Accumulated Depreciation	2012 Net Book Value	2011 Net Book Value
Software	3 years	$258,957	$(258,957)	$0	$0
Computer equipment	5 years	497,616	(429,063)	68,553	98,799
Office equipment	7 years	541,272	(421,974)	119,298	172,652
Office furniture	15 years	526,039	(399,927)	126,112	147,906
Leasehold improvements	Life of lease	428,173	(388,973)	39,200	106,396
Total		**$2,252,057**	**$(1,898,894)**	**$353,163**	**$525,753**

Note 5: Liabilities Not Covered By Budgetary Resources

Unfunded FECA liabilities consists of workers' compensation claims payable to the DOL, which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from the DOL. The actuarial calculation is based on benefit payments made over twelve quarters, and calculates the annual average of payments. For medical expenses and compensation, this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. At year-end, the balance in the unfunded leave account is adjusted to reflect the liability at current pay rates and leave balances. Unfunded leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken. All other liabilities are considered to be covered by budgetary resources.

Liabilities Not Covered By Budgetary Resources		
For the Years ended September 30,	**2012**	**2011**
Intragovernmental – Unfunded FECA liabilities	$240,761	$239,011
Federal employee benefits – FECA actuarial liability	1,185,256	1,141,306
Unfunded leave	1,519,345	1,513,590
Total	**$2,945,362**	**$2,893,907**

Note 6: Other Liabilities

Other liabilities in FY 2011 and FY 2012 include interest payment from a customer agency for reimbursable travel. Payment was deposited into the Treasury's General Fund Interest Account.

Note 7: Leases

The FLRA has operating leases for rental of office space and equipment. As a Federal agency, the FLRA is not liable for any lease terms beyond one year.

Future Minimum Lease Payments			
FY	**Equipment**	**Building**	**Total**
2013	$40,194	$1,393,343	$1,433,537
2014	18,700	501,481	520,181
2015	13,527	422,743	436,270
2016	0	316,202	316,202
2017	0	251,398	251,398
Thereafter	0	1,023,983	1,023,983
Total	**$72,421**	**$3,909,150**	**$3,981,571**

Note 8: Commitments and Contingencies

The FLRA is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. In the opinion of FLRA management, the ultimate resolution of proceedings, actions, and claims will not materially affect financial position or results of operations of the FLRA. The agency has examined its obligations related to cancelled FY 2007 authority and believes that it will not have outstanding commitments that will require future resources.

Note 9: Intragovernmental Costs and Exchange Revenue

The classification of revenue or cost defined as "intragovernmental" or "with the public" is defined on a transaction by transaction basis. Preceding transactions in the lifecycle of a product will not have an impact on subsequent transactions. If the FLRA purchases goods or services from another Federal entity, capitalizes them into inventory, and later resells them to the public, the cost of the original purchase of resale assets from the other Federal entity will be classified as "intragovernmental" at the time of the purchase. At ultimate sale to the end user, the resulting cost of goods will be classified as "with the public." The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

Note 10: Apportionment Categories of Obligations Incurred: Direct Versus Reimbursable Obligations

Obligations Incurred		
For the Years Ended September 30,	**2012**	**2011**
Direct obligations – Category A	$24,713,002	$24,717,028
Reimbursable obligations – Category A	46,053	79,330
Total	**$24,759,055**	**$24,796,358**

Note 11: Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at the end of September 30, 2012 and 2011 was $1,259,285 and $1,772,040, respectively.

Note 12: Explanation of Differences between the SBR and the Budget of the U.S. Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the U.S. Government (the President's Budget). The FY 2013 President's Budget, with actual amounts for FY 2011, has been reconciled to the Statement of Budgetary Resources. The FY 2014 President's Budget, with actual amounts for FY 2012, will not be published until February 2013.

Note 13: Reconciliation of Net Cost of Operations to Budget

Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal years ended September 30, 2012 and 2011 are shown in the table on the following page.

Reconciliation of Net Cost of Operations to Budget		
For the Years Ended September 30,	**2012**	**2011**
Resources Used to Finance Activities:		
Obligations incurred	$24,759,055	$24,796,358
Spending authority from offsetting collections:		
Collected	(37,675)	(81,238)
Change in unfilled customer orders	(5,821)	(647)
Recoveries of prior year unpaid obligations	(611,555)	(46,400)
Transfers in/out without reimbursement	0	(24,675)
Imputed financing sources	1,495,849	1,686,875
Other	0	(4)
Total Resources Used to Finance Activity	**$25,599,853**	**$26,330,269**
Resources Used That Do Not Fund Net Cost of Operations:		
Change in unfilled customer orders	$5,821	$647
Change in undelivered orders	502,552	241,745
Current-year capitalized purchases	0	(29,789)
Components of the Net Cost of Operations Which Do Not Generate or Use Resources in the Reporting Period:		
Change in non-Federal receivables	8,757	(9,992)
Other financing sources not in the budget	(1,495,849)	(1,686,875)
Depreciation and amortization	172,591	220,707
Future funded expenses	7,505	66,632
Imputed costs	1,495,849	1,686,875
Other expenses not requiring budgetary resources	43,950	(31,598)
Net Cost of Operations	**$26,341,029**	**$26,788,621**

CONTACTING THE OFFICE OF INSPECTOR GENERAL

IF YOU BELIEVE AN ACTIVITY IS WASTEFUL, FRAUDULENT, OR ABUSIVE OF FEDERAL FUNDS, CONTACT THE:

HOTLINE (800)331-3572

HTTP://WWW.FLRA.GOV/OIG-HOTLINE

EMAIL: OIGMAIL@FLRA.GOV
CALL: (202)218-7970 FAX: (202)343-1072
WRITE TO: 1400 K Street, N.W. Suite 250, Washington, D.C. 20424

The complainant may remain confidential; allow their name to be used; or anonymous. If the complainant chooses to remain anonymous, FLRA OIG cannot obtain additional information on the allegation, and also cannot inform the complainant as to what action FLRA OIG has taken on the complaint. Confidential status allows further communication between FLRA OIG and the complainant after the original complaint is received. The identity of complainants is protected under the provisions of the Whistleblower Protection Act of 1989 and the Inspector General Act of 1978. To learn more about the FLRA OIG, visit our Website at http://www.flra.gov/oig

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