
FINANCIAL SECTION



LETTER FROM THE DIRECTOR OF ADMINISTRATION

As the Director of Administration at the National Labor Relations Board (NLRB), I am responsible for the overall administrative management of the NLRB, including financial management.

For Fiscal Year (FY) 2007, I am pleased that the NLRB has received a unqualified opinion from the auditors on its financial statements. As a law enforcement agency charged with the protection of democracy in the workplace, it is important that the public knows that the resources it has entrusted to us to carry out the mission of the Agency are being used effectively. The Financial Section of the PAR contains the Fiscal Year 2007 Financial Statements for the NLRB which present a fair and accurate financial picture of the Agency.

In FY 2007, the NLRB updated its Strategic Plan and replaced the performance measures it previously had been using with three new overarching measures that focus more on outcomes and better defines for the public our success in accomplishing our strategic goals. The implementation of these new more robust measures in FY 2007 assisted the Agency in obtaining certification from OPM for the NLRB's pay-for-performance system covering its senior executives.

In FY 2007, the NLRB again was able to successfully manage Agency programs, while operating in a constrained budget environment. In so doing, management was very proactive in maximizing and enhancing efficiencies throughout the year, so as to make the best use of the funding provided. Agency managers were called upon to be particularly flexible and adept during the year, when presented with an accounting accrual problem noted by outside auditors in mid-year. Once the problem was resolved with our accounting system shared service provider, however, managers quickly identified, prioritized, and addressed additional funding needs.

As a result of these efforts, the NLRB was able to effectively manage its caseload, while continuing to maintain a reduced backlog; cover training and contractual benefits costs; fill critical vacancies; cover required space and security costs; and pay for essential information technology requirements, including software for the new automated case management system, and hardware needed to support the Agency telework program.

Agency managers, supervisors, and staff are to be commended for their efforts to maintain the high quality service to the public for which we are known, while also dealing with the many challenges presented throughout the year, effectively, efficiently, and professionally.

In connection with the FY 2006 audit, the NLRB's Inspector General issued a management letter which contained five findings, one of which involved recommendations that had not yet been implemented from the 2004 audit, and four new recommendations. One of the new recommendations concerned information technology vulnerabilities. While generally the NLRB's Chief Information Officer agreed with the auditors on most of their findings, he did not agree with the conclusion that the recommendations were not labor or resource intensive to implement. Nevertheless, the Agency continues to work to implement the auditors' findings to mitigate the identified vulnerabilities.

The auditors also recommended that the Agency develop procedures to identify, accumulate, and capitalize costs related to system development efforts, and that the Agency undertake a comprehensive review of its capitalized property as well as develop procedures to ensure periodic reviews. The NLRB's Finance Officer is working with the OCIO to identify the appropriate software to capitalize the costs, and will develop procedures to ensure that capitalized costs are identified upon the issuance of a purchase order. In connection with the recommendation concerning capitalized property, the Agency completed a comprehensive review of its capitalized property in November 2006 and now conducts reviews on a quarterly basis.

Finally, the remaining two recommendations from the FY 2004 audit - implementation of a disaster recovery plan and the migration to the Momentum Financial System from the Agency Regional Office Budgeting System - have now been fully implemented.

As the Director of Administration at the NLRB, I also have oversight of the NLRB's management controls program as prescribed by the Federal Managers Financial Integrity Act (FMFIA). Last year, I noted one issue that was a possible internal control issue for the Agency. It concerned the granting of independent procurement authority to the OCIO, which I believed placed the NLRB at an increased level of risk, especially since the procurement of information technology services and equipment involved expenditures in excess of \$10 million annually. Our experiences over the past year have not alleviated my concerns. The arrangement is contrary to the principles of a sound risk management program and remains an internal control issue that should be addressed by Agency management.

The NLRB is committed to providing high quality financial management services. We continually seek ways to improve the NLRB's internal processes and provide excellent customer service in support of the NLRB's mission.



Gloria Joseph
Director of Administration

UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General



Memorandum

November 13, 2007

To: Robert J. Battista
Chairman

From: Jane E. Altenhofen
Inspector General

A handwritten signature in cursive script that reads "Jane E. Altenhofen".

Subject: Audit of the National Labor Relations Board Fiscal Year 2007 Financial Statements
(OIG-F-12-08-01)

This memorandum transmits Carmichael, Brasher, Tuvell & Company's (CBTC) audit report on the National Labor Relations Board (NLRB) Fiscal Year (FY) 2007 Financial Statements.

The Accountability of Tax Dollars Act of 2002 requires NLRB to prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) annual audited financial statements. We contracted with CBTC, an independent public accounting firm, to audit the financial statements. The contract required that the audit be done in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, issued by OMB.

Results of Independent Audit

CBTC issued an unqualified opinion on the NLRB FY 2007 financial statements. CBTC previously issued an unqualified audit opinion on the FY 2006 information included with the consolidated and combined statements. CBTC is not required to and did not provide an opinion on internal control. In its audit report, CBTC did not identify any significant deficiencies. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected. CBTC also reported that they did not identify noncompliance with laws and regulations tested.

NLRB's Director of Administration agreed with the report findings. The Director of Administration's response, dated November 9, 2007, follows CBTC's report.

Evaluation of CBTC's Audit Performance

In connection with the contract, 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. CBTC is responsible for the attached auditor's report dated November 7, 2007, and the conclusions expressed in the report. However, our review disclosed no instances where CBTC did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General appreciates the courtesies and cooperation extended to CBTC and our staff during the audit. If you have any questions, please contact me or Emil T. George, Assistant Inspector General for Audits.

Attachment

cc: General Counsel

INDEPENDENT AUDITORS' REPORT

To Jane E. Altenhofen, 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 consolidated balance sheet of NLRB as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of NLRB's management. Our responsibility is to express an opinion on these financial statements 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, 2007 and 2006; 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 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 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 (FMFIA), 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. 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.

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 was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain other matters in internal control that came to our attention during our audit which we communicated in writing to management 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. With respect to internal control related to performance measures reported in the Management Discussion and Analysis (MD&A) section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of NLRB is responsible for complying with laws and regulations applicable to the Agency. 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.

The results of our tests of compliance with the laws and regulations discussed in the preceding paragraph disclosed no instances of noncompliance with laws and regulations that are required to be reported under *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.

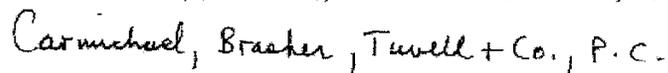
OTHER ACCOMPANYING INFORMATION

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 the management of NLRB, others within the organization, the OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

CARMICHAEL, BRASHER, TUVELL & COMPANY, PC



Atlanta, Georgia
November 7, 2007

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum



TO: Jane E. Altenhofen
Inspector General

FROM: Gloria Joseph
Director of Administration

DATE: November 9, 2007

SUBJECT: Response to Draft Audit Report – NLRB Fiscal Year 2007 Financial Statements

We have reviewed the Audit Report submitted by Carmichael Brasher Tuvell & Company (Carmichael) and are pleased that the FY 2007 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 comments with respect to the report.

If you have any questions, please do not hesitate to contact me.

cc: Board
General Counsel

AUDITORS' REPORTS AND FINANCIAL STATEMENTS

Principal Statements

National Labor Relations Board

BALANCE SHEET

As of September 30, 2007 and 2006
(in dollars)

| | FY 2007 | FY 2006 |
|---|-----------------------|-----------------------|
| Assets: | | |
| Intragovernmental: | | |
| Fund balance with Treasury (Note 2) | \$ 22,594,083 | \$ 24,541,644 |
| Investments, Net (Note 3) | 3,196,740 | 1,668,341 |
| Advances (Note 4) | 11,291 | 64,460 |
| Total intragovernmental | 25,802,114 | 26,274,445 |
| Accounts receivable, Net (Note 5) | 37,731 | 53,840 |
| Advances (Note 4) | 20,969 | 29,419 |
| General property, plant and equipment, net (Notes 6 and 10) | 5,993,887 | 277,468 |
| Total assets | \$ 31,854,701 | \$ 26,635,172 |
| Liabilities: | | |
| Intragovernmental: | | |
| Accounts payable (Note 7) | \$ 1,247,449 | \$ 375,612 |
| Employer contributions and payroll taxes | 1,355,674 | 1,379,765 |
| FECA liability (Notes 8 and 10) | 977,895 | 920,487 |
| Total Intragovernmental | 3,581,018 | 2,675,864 |
| Accounts payable (Note 7) | 4,220,506 | 3,730,917 |
| Estimated future FECA liability (Notes 8 and 10) | 2,506,988 | 2,135,103 |
| Accrued payroll and benefits | 6,009,836 | 6,172,321 |
| Accrued annual leave (Notes 8 and 10) | 13,216,335 | 13,511,257 |
| Backpay settlement due to others (Notes 8 and 9) | 3,680,543 | 2,532,232 |
| Custodial liability (Notes 8 and 9) | 401,903 | 253,671 |
| Total liabilities | 33,617,129 | 31,011,365 |
| Net position: | | |
| Unexpended appropriations | 8,907,172 | 11,859,347 |
| Cumulative results of operations (Note 10) | (10,669,600) | (16,235,540) |
| Total net position | \$ (1,762,428) | \$ (4,376,193) |
| Total liabilities and net position | \$ 31,854,701 | \$ 26,635,172 |

The accompanying notes are an integral part of these statements.

National Labor Relations Board
STATEMENT OF NET COST
For the Years Ended September 30, 2007 and 2006
(in dollars)

| | FY 2007 | FY 2006 |
|---|-----------------------|-----------------------|
| Program Costs: | | |
| Resolve representation cases | | |
| Total Gross Cost (Note 11) | \$ 43,589,206 | \$ 43,171,033 |
| Resolve unfair labor practices | | |
| Total Gross Cost (Note 11) | 222,055,844 | 221,885,443 |
| Other | | |
| Gross Costs | 58,765 | 266,891 |
| Less: Earned Revenue | 58,765 | 266,891 |
| Total Gross Cost | - | - |
| Net Cost of Operations (Note 11) | \$ 265,645,050 | \$ 265,056,476 |

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

National Labor Relations Board
STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2007 and 2006
(in dollars)

| | <u>Consolidated Total</u> <u>FY 2007</u> | <u>Consolidated Total</u> <u>FY 2006</u> |
|---|---|---|
| Cumulative Results of Operations | | |
| Beginning Balances | \$ (16,235,540) | \$ (15,789,070) |
| Correction of Errors (Note 13) | <u>1,689,486</u> | <u>—</u> |
| Beginning balance, as adjusted | (14,546,054) | (15,789,070) |
| Budgetary Financing Sources: | | |
| Appropriations—used | 253,749,692 | 247,717,037 |
| Other Financing Sources (Non-Exchange): | | |
| Imputed financing costs (Note 14) | 15,778,464 | 16,892,969 |
| Loss on disposal of assets | <u>(6,652)</u> | <u>—</u> |
| Total Financing Sources | 269,521,504 | 264,610,006 |
| Net Cost of Operations | <u>(265,645,050)</u> | <u>(265,056,476)</u> |
| Net Change | 3,876,454 | (446,470) |
| | | |
| Cumulative Results of Operations (Note 10) | \$ <u>(10,669,600)</u> | \$ <u>(16,235,540)</u> |
| | | |
| Unexpended Appropriations | | |
| Beginning Balance | \$ 11,859,347 | \$ 11,120,013 |
| | | |
| Budgetary Financing Sources: | | |
| Appropriations received | 251,507,470 | 252,268,000 |
| Appropriations-used | (253,749,692) | (247,717,037) |
| Recissions & cancelled appropriations | <u>(709,952)</u> | <u>(3,811,629)</u> |
| Total Budgetary Financing Sources | (2,952,174) | 739,334 |
| | | |
| Total Unexpended Appropriations | \$ <u>8,907,172</u> | \$ <u>11,859,347</u> |
| | | |
| Net position: | \$ <u><u>(1,762,428)</u></u> | \$ <u><u>(4,376,193)</u></u> |

The accompanying notes are an integral part of these statements.

National Labor Relations Board
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006
(in dollars)

| | FY2007 | FY2006 |
|--|-----------------------|-----------------------|
| Budgetary Resources: | | |
| Unobligated balance, brought forward, October 1: | 5,028,944 | 4,903,727 |
| Recoveries of prior year unpaid obligations | 1,032,460 | 1,643,869 |
| Budget authority: | | |
| Appropriations (Note 15) | 251,507,470 | 252,268,000 |
| Spending authority from offsetting collections: | | |
| Earned | | |
| Collected | 248,439 | 372,551 |
| Receivable from Federal sources | - | (37,157) |
| Subtotal | 251,755,909 | 252,603,394 |
| Permanently not available (Note 15) | (709,952) | (3,811,629) |
| Total Budgetary Resources (Note 16) | \$ 257,107,361 | \$ 255,339,361 |
| Status of Budgetary Resources: | | |
| Obligations incurred: | | |
| Direct | \$ 251,688,356 | \$ 250,043,526 |
| Reimbursable | 58,765 | 266,891 |
| Subtotal (Note 16) | 251,747,121 | 250,310,417 |
| Unobligated balance: | | |
| Apportioned (Note 16) | 276,311 | 420,908 |
| Unobligated balance not available | 5,083,929 | 4,608,036 |
| Total Status of Budgetary Resources | \$ 257,107,361 | \$ 255,339,361 |
| Change in Obligated Balance: | | |
| Obligated balance, net | | |
| Unpaid obligations, brought forward, October 1 | \$ 18,395,138 | \$ 18,805,914 |
| Uncollected customer payments from Federal Sources, brought forward, October 1 | - | (37,157) |
| Total unpaid obligated balance, net: | 18,395,138 | 18,768,757 |
| Obligations incurred, net | 251,747,121 | 250,310,417 |
| Gross Outlays | (252,761,661) | (249,077,325) |
| Recoveries of prior year unpaid obligations, actual | (1,032,460) | (1,643,869) |
| Change in uncollected customer payments from federal sources | - | 37,157 |
| Obligated balance, net end of period: | | |
| Unpaid obligations | 16,348,138 | 18,395,138 |
| Net Outlays: | | |
| Gross outlays | 252,761,661 | 249,077,325 |
| Offsetting collections | (248,439) | (372,551) |
| Net Outlays | \$ 252,513,222 | \$ 248,704,774 |

The accompanying notes are an integral part of these financial 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. It 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 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 June 29, 2007*. 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 United States 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 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 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 July 2007.

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 fiscal year (FY) 2009 Budget of the United States (also known as the President's Budget) with actual numbers for FY 2007 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2008 and will be available from the United States Government Printing Office. There are no differences in the actual amounts for FY 2006 that have been reported in the FY 2008 Budget of the United States and the actual numbers that appear in the FY 2006 Statement of Budgetary Resources.

OMB financial statement reporting guidelines for FY 2007 require the presentation of comparative financial statements for all of the principal financial statements. The NLRB is presenting comparative FY 2007 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 Treasury to meet operating expense requirements. The NLRB has single year budgetary authority and all unobligated amounts at year-end are expired. At 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 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 U.S. Treasury

The NLRB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury (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.

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

F. Investments, Net

The NLRB invests funds in Federal Government securities for Backpay that are held in the escrow account at Treasury. These funds held in Treasury are not appropriated funds. Backpay is the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings.

The Federal Government securities include marketable 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.

The market value is estimated as the sales price of the security multiplied by the bid price as of September 30, 2007 and September 30, 2006, respectively.

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 Investments, Net.

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 system 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. Note 6 now includes software that had been previously developed. The totals for FY 2006 have not been changed; instead the corrected amounts are reflected in the FY 2007 amounts.

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 Tracking System (NextGen) that will replace a number of case tracking systems with one enterprise-wide system. NextGen 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 is a multiple year undertaking in which various portions of the system will be rolled out as they are developed. The overall cost of this project is expected to exceed \$7 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. The NLRB holds non-entity assets for Backpay.

See Notes 9 and 17 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, 2007 and 2006, respectively.

Federal Employees Workers' Compensation Program.

The 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 Note 8 for additional information on the FECA liability.

Other

Accrued annual leave represents the amount of annual leave earned by the NLRB employees but not yet taken.

See Note 10 for additional information on 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 18 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 nonvested 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 the 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 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 \$15,500 in calendar year (CY) 2007 to this plan. Employees belonging to CSRS may also contribute up to \$15,500 of their salary in CY 2007 and receive no matching contribution from the NLRB. The maximum amount that either FERS or CSRS employees may contribute to the plan is \$15,500 in CY 2007. The maximum for catch-up contributions for 2007 is \$5,000. For 2007, the regular and catch-up contributions may not exceed \$20,500. 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 2007, the NLRB, utilizing OPM provided cost factors, recognized \$6,741,060 of pension expenses, \$9,009,924 of post-retirement health benefits expenses, and \$27,480 of post-retirement life insurance expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of \$15,778,464 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

In FY 2006, the NLRB, utilizing OPM provided cost factors, recognized \$7,347,627 of pension expenses, \$9,516,780 of post-retirement health benefits expenses, and \$28,562 of post-retirement life insurance expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of \$16,892,969 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

See Note 14 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 the 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 the 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.

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, 2007 and September 30, 2006 consists of the following:

Fund Balance with Treasury by Fund Type:

| (Dollars in thousands) | FY 2007 Entity Assets | Non- Entity Assets | Total | FY 2006 Entity Assets | Non- Entity Assets | Total |
|---|--------------------------|--------------------------|------------------|--------------------------|--------------------------|------------------|
| General Funds | \$ 21,708 | | \$ 21,708 | \$ 23,678 | - | \$ 23,678 |
| Escrow Funds | | \$ 886 | 886 | - | \$ 864 | 864 |
| Total Fund Balance with Treasury | \$ 21,708 | \$ 886 | \$ 22,594 | \$ 23,678 | \$ 864 | \$ 24,542 |

The status of the fund balance may be classified as unobligated available, unobligated unavailable, 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, 2007 and September 30, 2006 consists of the following:

Fund Balance with Treasury by Availability:

| (Dollars in thousands) | <u>FY 2007</u> | <u>FY2006</u> |
|--|-----------------|-----------------|
| Unobligated Balance | | |
| Available | \$ 258 | \$ 421 |
| Unavailable | 5,102 | 4,608 |
| Obligated balance not yet disbursed | 16,348 | 18,649 |
| Non-budgetary fund balance with Treasury | 886 | 864 |
| Totals | <u>\$22,594</u> | <u>\$24,542</u> |

Note 3. Investments, Net

Investments in Treasury Securities:

The NLRB invests Backpay 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.

In FY 2007, the maturity value of the investment was \$3 million as compared to FY 2006 of \$2 million.

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.

Investments as of September 30, 2007 and September 30, 2006 consist of the following:

Investment Value at Investment Market Value

| (Dollars in thousands) | Investment Type | Value at Maturity | Investment Net | Market Value Disclosure |
|--------------------------|--------------------|----------------------|-------------------|-------------------------------|
| FY 2007 | | | | |
| U.S. Treasury Securities | Marketable | 3,239 | 3,197 | 3,197 |
| FY 2006 | | | | |
| U.S. Treasury Securities | Marketable | 1,683 | 1,668 | 1,668 |

For FY 2007 and 2006, the discount on the marketable securities amounted to \$42 and \$15, respectively (Dollars in thousands).

Note 4. Advances**Intragovernmental**

Intragovernmental Advances to the USPS for September 30, 2007 were \$11,291 and \$12,611 for September 30, 2006. The DOT advance for September 30, 2007 was \$-0- and \$51,849 for September 30, 2006 (Amounts in dollars).

Commercial

Advances to Others of \$20,969 as of September 30, 2007 and \$29,419 for September 30, 2006, represent advances to a commercial vendor for postage (Amounts in dollars).

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

The FY 2007 intragovernmental accounts receivable is zero and the FY 2006 amount was also zero:

| (Dollars in thousands) | <u>FY 2007</u> | <u>FY2006</u> |
|-----------------------------|----------------|---------------|
| With the public | | |
| Accounts receivable | \$ 40 | \$ 56 |
| Allowance doubtful accounts | (2) | (2) |
| Accounts receivable-net | <u>\$ 38</u> | <u>\$ 54</u> |

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 expenses for the year ending September 30, 2007 were \$505,669 and for year ending September 30, 2006 were \$81,214 (amounts in dollars).

| (Dollars in thousands) FY 2007 | Asset Cost | Accumulated Depreciation/ Amortization | Net Asset Value |
|--------------------------------|---------------|--|--------------------|
| Equipment | \$ 1,609 | \$ 902 | \$ 707 |
| Internal Use Software | 3,654 | 1,230 | 2,424 |
| Internal Software Development | 2,863 | - | 2,863 |
| Totals | \$ 8,126 | \$ 2,132 | \$ 5,994 |

| (Dollars in thousands) FY 2006 | Asset Cost | Accumulated Depreciation/ Amortization | Net Asset Value |
|--------------------------------|---------------|--|--------------------|
| Equipment | \$ 1,761 | \$ 1,484 | \$ 277 |
| Internal Use Software | 163 | 163 | - |
| Totals | \$ 1,924 | \$ 1,647 | \$ 277 |

Note 7. Intragovernmental Accounts Payable

These accounts payables are with our Federal trading partners of which the largest amounts are with OPM, GSA, the Department of the Interior, and the Department of Homeland Security.

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 U.S. Treasury. The composition of liabilities not covered by budgetary resources as of September 30, 2007 and September 30, 2006, is as follows:

| Intragovernmental: (Dollars in thousands) | FY 2007 | FY 2006 |
|--|-----------|-----------|
| FECA-Unfunded | \$ 978 | \$ 920 |
| Total Intragovernmental | 978 | 920 |
| Estimated Future - FECA | 2,507 | 2,135 |
| Accrued Annual Leave | 13,216 | 13,511 |
| Backpay Settlement Due to Others | 3,681 | 2,532 |
| Custodial Liability | 402 | 254 |
| Total Liabilities not covered by budgetary resources | 20,784 | 19,352 |
| Total Liabilities covered by budgetary resources | 12,833 | 11,659 |
| Total Liabilities | \$ 33,617 | \$ 31,011 |

Note 9. Non-Entity Assets

Non-Entity assets, restricted by nature, consist of miscellaneous receipt accounts and Backpay settlement due to others. These amounts represent cash collected and accounts receivable (net of allowance for doubtful accounts). The miscellaneous receipts represent court costs, freedom of information requests and closed out Backpay cases that must be transferred to the U.S. Treasury. The Backpay settlement due to others represents monies to be disbursed to discriminatees at a later date. The composition of non-entity assets as of September 30, 2007 and September 30, 2006, is as follows:

| (Dollars in thousands) | FY 2007 | FY 2006 |
|----------------------------------|----------|----------|
| Non-entity assets | | |
| Intragovernmental | | |
| Fund Balance with Treasury | \$ 402 | \$ 254 |
| Accounts receivable | - | - |
| Total Intragovernmental | 402 | 254 |
| Backpay Settlement Due to Others | 3,681 | 2,532 |
| Total Non-entity assets | 4,083 | 2,786 |
| Entity assets | 27,772 | 23,849 |
| Total Assets | \$31,855 | \$26,635 |

Note 10. Cumulative Results of Operations

| (Dollars in thousands) | FY 2007 | FY 2006 |
|--|------------|------------|
| FECA paid by DOL | \$ (444) | \$ (419) |
| FECA - Unfunded | (978) | (920) |
| Estimated Future FECA | (2,507) | (2,135) |
| Accrued Annual Leave | (13,216) | (13,511) |
| General Property, Plant & Equipment, Net | 5,994 | 277 |
| Other | 481 | 472 |
| Cumulative Results of Operations | \$(10,670) | \$(16,236) |

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.

| (Amount in thousands) | FY 2007 | FY 2006 |
|--|-------------------|-------------------|
| Resolve Representation Cases | | |
| Intragovernmental Costs | \$ 8,497 | \$ 8,600 |
| Costs with the Public | 35,092 | 34,571 |
| Total Net Cost - Resolve Representation Cases | 43,589 | 43,171 |
| | | |
| Resolve Unfair Labor Practices | | |
| Intragovernmental Costs | 42,980 | 43,788 |
| Costs with the Public | 179,076 | 178,097 |
| Total Net Cost - Resolve Unfair Labor Practices | 222,056 | 221,885 |
| | | |
| Other | | |
| Intragovernmental Costs | 59 | 267 |
| Less: Intragovernmental Earned Revenue | 59 | 267 |
| Net Intragovernmental Cost | - | - |
| Total Net Cost - Other | - | - |
| | | |
| Net Cost of Operations | \$ 265,645 | \$ 265,056 |

Note 12. Operating Leases

GSA Real Property. Most of the NLRB's facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. The terms of the 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 set 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 2008 through 2012.

Rental expenses for operating leases for the year ending September 30, 2007 were \$27,713,149 for Agency lease space and \$1,777,993 for Agency building security. For FY 2006 the GSA operating lease costs were \$27,180,435 and the Department of Homeland Security building security portion was \$1,267,062. Also, in FY 2007, the Agency is showing separately the payment to GSA for the operating lease and the payment to the Department of Homeland Security for the building security.

| (Dollars in thousands) Fiscal Year | <u>GSA Real Property</u> |
|---------------------------------------|------------------------------|
| 2008 | \$28,027 |
| 2009 | 28,057 |
| 2010 | 28,920 |
| 2011 | 29,643 |
| 2012 | 30,385 |
| After 5 Years | - |
| Total Future Lease Costs | <u>\$145,032</u> |

Note 13. Correction of Errors

Management discovered a mistake in previous years' application of accounting principles. Specifically, Internal Use Software was expensed but should have been capitalized.

The cumulative effect of the change on prior periods has no material effect on the previous overall financial statements.

This correction of errors is reported on the Statement of Changes in Net Position for FY 2007 and consists of the following:

| (Dollars in thousands) | |
|---|----------|
| Capitalization of software previously expensed | \$ 2,735 |
| Depreciation expense for above capitalized software | (1,046) |
| Net correction of errors | \$ 1,689 |

Note 14. Imputed Financing

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, 2007 and 2006 consisted of:

| (Dollars in thousands) | <u>FY 2007</u> | <u>FY 2006</u> |
|--|------------------------|------------------------|
| Office of Personnel Management: | | |
| Pension expenses | \$6,741 | \$7,347 |
| Federal employees health benefits | 9,010 | 9,517 |
| Federal employees group life insurance program | 27 | 29 |
| Total Imputed Financing | <u>\$15,778</u> | <u>\$16,893</u> |

Note 15. Appropriations Received

The NLRB received \$251,507,470 and \$249,745,320 (net of rescission) in warrants for the FYs ended September 30, 2007 and 2006, respectively. The rescissions for FY 2007 were already subtracted from the appropriation when it was received. The rescission was \$2,522,680 in FY 2006. The amount shown on the Statement of Budgetary Resources under caption “Permanently not available” for FY 2007 in the amount of \$709,952 is the cancelled appropriation for FY 2002. The amount of \$3,811,629 for FY 2006 is a combination of the rescission of \$2,522,680 and FY 2001 cancelled appropriation of \$1,288,949.

Undelivered Orders at the End of the Period

Undelivered orders at September 30, 2007 were \$3,514,672 and at September 30, 2006 were \$6,736,523.

Note 16. 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 generally accepted accounting principles for the Federal Government. The total Budgetary Resources of \$257,107,361 as of September 30, 2007 and \$255,339,361 as of September 30, 2006, 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, 2007, was \$276,311 and at September 30, 2006 was \$420,908.

Apportionment Categories of Obligations Incurred. The NLRB’s obligations incurred as of September 30, 2007 and September 30, 2006 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.

| (Dollars in thousands) FY 2007 | Apportioned | | Not Subject to | Total |
|-----------------------------------|------------------|-----------------|----------------|------------------|
| | Category A | Category B | Apportionment | |
| Obligations Incurred: | | | | |
| Direct | \$240,306 | \$11,382 | \$0 | \$251,688 |
| Reimbursable | 59 | - | | 59 |
| Total Obligations Incurred | \$240,365 | \$11,382 | \$0 | \$251,747 |

| (Dollars in thousands) FY 2006 | Apportioned | | Not Subject to | Total |
|-----------------------------------|------------------|-----------------|----------------|------------------|
| | Category A | Category B | Apportionment | |
| Obligations Incurred: | | | | |
| Direct | \$239,730 | \$10,313 | \$0 | \$250,043 |
| Reimbursable | 267 | 0 | | 267 |
| Total Obligations Incurred | \$239,997 | \$10,313 | \$0 | \$250,310 |

Note 17. Backpay Checks Held in the NLRB Regional Offices

The NLRB may use Backpay as a remedy to settle a ULP. The Backpay may be disbursed by three different methods: (1) the respondent prepares the Backpay and disburses it directly to the discriminatee(s); (2) the respondent prepares the Backpay and gives the check(s) to an NLRB Regional Office to deliver to the discriminatee(s); and (3) the respondent makes the Backpay payable to the NLRB, who deposits the check and then issues U.S. Treasury checks to the discriminatee(s).

This footnote identifies the number (in units) and dollar value (in thousands) of checks that are received in the Regional Offices that are made payable to discriminatees. The NLRB has a fiduciary type of responsibility to safeguard these checks until they are successfully disbursed to the discriminatee(s). It should be noted that it might take months to successfully deliver the backpay.

| (Dollars in thousands) | FY 2007 | | FY 2006 | |
|-------------------------------------|---------|----------|---------|----------|
| | Number | Amount | Number | Amount |
| Checks on Hand, Beginning of Period | 353 | \$ 161 | 389 | \$ 519 |
| Checks Received | 6,903 | 23,323 | 5,492 | 17,606 |
| Less Checks Distributed | (7,025) | (23,378) | (5,528) | (17,964) |
| Net Change in Checks on Hand | (122) | (55) | (36) | (358) |
| Checks on Hand at End of Period | 231 | \$ 106 | 353 | \$ 161 |

Note 18. Contingencies

The NLRB is a party to several threatened or pending litigation claims. The NLRB management believes that all the claims listed have a remote possibility of a cost to the Agency. The Agency has and will continue to vigorously contest these claims. In the opinion of the NLRB's management, the ultimate resolution of pending litigation will not have a material effect on the NLRB's financial statements.

Note 19. Reconciliation of Net Cost of Operations to Budget

| (In thousands) | FY 2007 | FY 2006 |
|---|-------------------|-------------------|
| Resources used to finance activities | | |
| Budgetary Resources Obligated: | | |
| Obligations incurred | \$ 251,747 | \$ 250,310 |
| Less: Spending authority from recoveries | (1,281) | (1,979) |
| Net obligations | 250,466 | 248,331 |
| Other Resources: | | |
| Imputed financing from costs absorbed by others | 15,778 | 16,893 |
| Loss on abandoned property | (6) | - |
| Total resources used to finance activities | 266,238 | 265,224 |
| Resources used to finance items not part of the net cost of operations: | | |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided | 3,284 | (614) |
| Resources that fund expenses recognized in prior periods | (279) | (1) |
| Resources that finance the acquisition of assets | (4,696) | (232) |
| Other adjustments to net obligated resources | 220 | - |
| Total resources used to finance items not part of the net cost of operations | (1,471) | (847) |
| Total resources used to finance the net cost of operations | 264,767 | 264,377 |
| Components of the net cost of operations that will not require or generate resources in the current period: | | |
| Components requiring or generating resources in future periods: | | |
| Increase in annual leave liability | - | 248 |
| Total components requiring or generating resources in future periods | - | 248 |
| Components not requiring or generating resources: | | |
| Depreciation | 506 | 81 |
| Increase in unfunded worker's comp expense | 372 | 350 |
| Total components of net cost of operations that will not require or generate resources | 878 | 431 |
| Total components of net cost of operations that will not require or generate resources in the current period | 878 | 679 |
| Net cost of operations | \$ 265,645 | \$ 265,056 |