

**NOTES TO
FINANCIAL
STATEMENTS
SEPTEMBER 30,
2015 &
SEPTEMBER 30,
2014**

Notes to Principal Statements

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The National Mediation Board (NMB), established in 1934 under Section 4 of the Railway Labor Act (RLA), is an independent U.S. federal government agency that performs a central role in facilitating harmonious labor-management relations within two of the nation's major transportation modes - the railroads and airlines. Recognizing the importance of these transportation industries to the public, shippers, and consumers, as well as to the economy and security of the country, the RLA established NMB to promote four key statutory goals:

- The prompt and orderly resolution of disputes arising out of the negotiation of new or revised collective bargaining agreements.
- The effectuation of employee rights of self-organization where a representation dispute exists; and
- The prompt and orderly resolution of disputes over the interpretation or application of existing agreements.

NMB prepares its financial statements to be in conformity with general accepted accounting principles. NMB does not hold any non-entity assets and has no funds from dedicated collections as described by the Statement of Federal Financial Accounting Standards (SFFAS) 43.

B. Basis of Presentation

NMB's principal financial statements were prepared from its official financial records and general ledger in conformity with accounting principles generally accepted in the United States and follow the presentation guidance established by OMB Circular No. 136 "Financial Reporting Requirements," as amended. The amounts reported in the financial statements are consolidated totals net of intra-entity transactions. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of NMB. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds and to keep track of budget authority at the various stages of execution including allotment, obligation, and outlay.

The Balance Sheet, Statement of Net Cost, Statement of Net Position, and Statement of Budgetary Resources have been prepared in accordance with generally accepted accounting principles accepted in the United States for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the body designated to establish generally accepted accounting principles for federal entities. Certain assets, liabilities, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. Revenue and Other Financing Sources

NMB 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 services costs). Appropriations are recognized as other financing sources at the time they are used to pay program or administrative expenses. Appropriations used to acquire property and equipment is recognized as financing sources when the assets are purchased.

E. Use of Estimates

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

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F. Fund Balances with the US Department of Treasury

The U.S. Treasury (Treasury) processes cash receipts and disbursements on NMB's behalf. The balance of funds with Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase obligations relative to goods or services that have not been received. NMB does not maintain cash in commercial bank accounts or foreign currency balances.

G. Accounts Receivable

Accounts receivable primarily consists of amounts due from current and former employees. These receivables are a result of payroll adjustments and or court ordered actions. An allowance for uncollectible accounts receivable from the public is established when either (1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 120 days delinquent. Based on historical experience, all receivables are collectible and no allowance is provided.

H. Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. NMB capitalizes property and equipment purchases with a cost greater than \$5,000, and a total useful life exceeding one year. Depreciation is calculated on a straight-line basis based on an estimated useful life of 5 years for all assets. Expenditures for repairs and maintenance are charged to operating expenses as incurred. When NMB enters into a lease agreement, as lessee, if the title of the asset transfers to NMB at the end of the lease or any of the other three capitalization criteria pursuant to SFFAS No. 6, Accounting for Property, Plant, and Equipment, are met, NMB capitalizes the lease at the present value of minimum lease payment and amortizes the cost over the economic useful life of the asset.

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by NMB as the result of a transaction or event that has already occurred. However, no liability can be paid by NMB 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 appropriations will be enacted. Also, liabilities of NMB arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees.

Liabilities not covered by budgetary resource are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and contingent liabilities.

Regarding NMB's building lease, the General Services Administration (GSA) entered into a lease agreement for NMB's rental of building space. NMB pays GSA a standard level users charge for the annual rental. The standard level users charge approximates the commercial rental rates for similar properties.

J. Accrued Payroll and Benefits

Accrued payroll and benefits reflect salaries and benefits that have been earned, but not disbursed as of September 30, 2015. Accrued payroll and benefits are payable to employees and are therefore not classified as Intragovernmental.

K. Annual, Sick and Other Leave

Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each pay period the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Sick leave and other types of non-vested leave are charged to expense as the leave is used.

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L. Retirement Plan

NMB's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7 percent of their gross pay to the plan, and NMB contributes 7 percent.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and are eligible for Social Security benefits. Employees hired prior to January 1, 1984, could elect either to transfer to the FERS plan and become eligible for Social Security benefits or remain in CSRS. A primary feature of FERS is that it offers a savings plan in which NMB automatically contributes 1 percent of employees' pay and matches any employee contribution up to an additional 4 percent of pay.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is therefore not disclosed by NMB. The reporting of these amounts is the responsibility of the Office of Personnel Management.

M. Commitments and Contingencies

Commitments are contractual agreements involving financial obligations. NMB is committed for goods and services that have been ordered, but have not yet been received. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability is disclosed in the notes to the financial statements when a past event or exchange transaction has occurred, and future outflow or other sacrifice of resources is measurable and probable. A contingency is not disclosed when any of the conditions for liability recognition are not met and the chance of the future event or events occurring are not probable.

Note 2: Fund Balances with Treasury

Fund Balance with Treasury account balances as of September 30, 2015 and 2014 were as follows:

| FUND BALANCES: | 2015 | 2014 |
|--------------------------------------|---------------------|---------------------|
| General Funds | \$ 7,120,208 | \$ 6,172,901 |
| TOTAL | \$ 7,120,208 | \$ 6,172,901 |
| Status of Fund Balance with Treasury | | |
| Unobligated Balance: | | |
| Available | \$ 566,880 | \$ 437,914 |
| Unavailable | \$ 3,410,824 | \$ 3,029,265 |
| Obligated Balance Not Yet Disbursed | \$ 3,142,504 | \$ 2,705,722 |
| TOTAL | \$ 7,120,208 | \$ 6,172,901 |

The available unobligated fund balances represent the current-period amount available for obligation or commitment.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance.

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Note 3: Property and Equipment, Net

NMB uses straight-line depreciation with a useful life of 5 years and a capitalization threshold of \$5,000.

Schedule of Property and equipment, at September 30, 2015

| MAJOR CLASS | ACQUISITION COST | ACCUMULATED AMORTIZATION/ DEPRECIATION | NET BOOK |
|-----------------------|------------------|--|-------------|
| Capital Lease | \$ - | \$ - | \$ - |
| Furniture & Equipment | \$ - | \$ - | \$ - |
| TOTAL | \$ - | \$ - | \$ - |

Schedule of Property and equipment, at September 30, 2014

| MAJOR CLASS | ACQUISITION COST | ACCUMULATED AMORTIZATION/ DEPRECIATION | NET BOOK |
|-----------------------|-------------------|--|------------------|
| Capital Lease | \$ 157,180 | \$ 134,134 | \$ 23,046 |
| Furniture & Equipment | \$ 93,553 | \$ 85,788 | \$ 7,765 |
| TOTAL | \$ 250,733 | \$ 219,922 | \$ 30,811 |

Note 4: Liabilities Covered and Not Covered by Budgetary Resources

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2015 and 2014 consist of the following:

| LIABILITIES NOT-COVERED BY BUDGETARY RESOURCES | 2015 | 2014 |
|---|---------------------|---------------------|
| Contingent Liabilities | \$ 175,000 | \$ 75,000 |
| Unfunded Leave | \$ 474,417 | \$ 4 72,043 |
| TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES | \$ 649,417 | \$ 547,043 |
| TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES | \$ 533,545 | \$ 520,264 |
| TOTAL LIABILITIES | \$ 1,182,962 | \$ 1,067,307 |

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Note 5: Pensions, Other Retirement Benefits, and Other Post Retirement Benefits

The NMB reports the full cost of employee pensions, other retirement benefits, and other post-employment benefits in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. Although the NMB funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, a portion of the Normal Pension Cost remains unpaid. SFFAS No. 5 requires the recognition of this remaining cost as imputed financing.

Pension and other retirement benefit expenses are calculated using cost factors determined by actuaries at the Office of Personnel Management. These cost factors are calculated based on economic and demographic assumptions. The cost factor is multiplied by the basic pay in order to obtain the "Normal Cost" for the accounting period. This Normal Cost is the present value of the projected benefits of each employee allocated on a level basis over the service of the employee between entry age and assumed exit age. The imputed financing amount represents the difference between the employer's total pension expense and the employer's contribution.

Imputed Financing Sources in 2015 and 2014 consists of the following:

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Office of Personnel Management | \$ 398,515 | \$ 469,577 |
| TOTAL IMPUTED FINANCING SOURCES | \$ 398,515 | \$ 469,577 |

Note 6: Accounting for Leases

Operating Leases: NMB occupies office space under a lease agreement with the General Services Administration (GSA) that is accounting for as an operating lease. The lease term was for a period of eleven years began on November 1, 2005 and expires on October 31, 2016. NMB pays GSA a standard level users charge for the annual rental adjusted annually for operating cost escalations in accordance with the provisions in the Federal Management Regulations.

| FISCAL YEAR | OFFICE SPACE |
|------------------------------------|---------------------|
| 2015 | \$ 1,418,181 |
| 2016 | \$ 1,434,348 |
| TOTAL FUTURE LEASE PAYMENTS | \$ 2,852,529 |

Capital Leases:

NMB entered into a capital lease on September 10, 2010 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$25,807.20 annually at an interest rate of 8.25 percent was determined to be \$102,365.28 for the machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2015 and 2014 was \$0 and \$19,062.

NMB entered into a capital lease on September 27, 2010 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$5,393.52 annually at an interest rate of 8.25 percent was determined to be \$21,393.61 for the machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2015 and 2014 was \$0 and \$3,984.

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Note 7: Contingent Arbitrator Liabilities

Arbitrator Liabilities

The NMB revised its policy, so that when cases are assigned to an Arbitrator the full cost of the case is obligated. The number of cases not assigned to any arbitrators September 30, 2015 and 2014 is 3,673 and 3,189 respectively. If these cases were assigned, we estimate it would cost \$2,313,990 in fiscal year 2015 and \$2,009,070 in fiscal year 2014 for arbitrators to hear and render an award on these cases.

Equal Employment Opportunity (EEO)

An EEO lawsuit alleging age and race bias for the withdrawal of an offer of employment, unspecified damages requested include back pay, forward pay, and remedial damages. An unfavorable outcome is reasonably possible and could result in a loss in the range of \$100,000.

Procurement Contract

A claim for payment under a contract for construction work that was not completed by the contractor in question. An unfavorable outcome is probable and could result in potential losses between \$75,000.

Note 8: Intragovernmental Costs and Exchange Revenue

The purpose of this classification of NMB's revenue and cost 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. The intragovernmental costs relate to the source of goods and services purchased by NMB and are treated independently from the classification of related revenue.

| PROGRAM COSTS: | 2015 | 2014 |
|---|----------------------|----------------------|
| Mediation/ADR | | |
| Intragovernmental Costs | \$ 2,415,698 | \$ 2,633,198 |
| Public Costs | \$ 4,818,044 | \$ 5,111,841 |
| TOTAL MEDIATION/ADR | \$ 7,233,742 | \$ 7,745,039 |
| Representation | | |
| Intragovernmental Costs | \$ 926,929 | \$ 439,260 |
| Public Costs | \$ 1,317,070 | \$ 2,097,754 |
| TOTAL REPRESENTATION | \$ 2,243,999 | \$ 2,537,014 |
| Arbitration | | |
| Intragovernmental Costs | \$ 604,713 | \$ 586,249 |
| Public Costs | \$ 1,961,330 | \$ 1,276,180 |
| TOTAL ARBITRATION | \$ 2,566,043 | \$ 1,862,429 |
| Presidential Emergency Board | | |
| Intragovernmental Costs | \$ 3,271 | \$ 337 |
| Public Costs | \$ 100,436 | \$ 279,085 |
| TOTAL PRESIDENTIAL EMERGENCY BOARD | \$ 103,707 | \$ 279,422 |
| TOTAL INTRAGOVERNMENTAL COSTS | \$ 3,950,611 | \$ 3,659,044 |
| TOTAL PUBLIC COSTS | \$ 8,196,880 | \$ 8,764,860 |
| TOTAL GROSS PROGRAM COSTS | \$ 12,147,491 | \$ 12,423,904 |
| Net Program Costs | \$ 12,147,491 | \$ 12,423,904 |

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Note 9: Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2015 and 2014 consists of the following:

| DIRECT OBLIGATIONS | 2015 | 2014 |
|-----------------------------------|----------------------|----------------------|
| Category A | \$ 12,903,817 | \$ 12,640,417 |
| Category B | \$ 109,412 | \$ 294,205 |
| TOTAL OBLIGATIONS INCURRED | \$ 13,013,229 | \$ 12,934,623 |

The available unobligated fund balances represent the current-period amount available for obligation or commitment.

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The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance.

Note 10: Undelivered Orders Net at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2015 and 2014 is \$2,608,959 and \$2,185,457 respectively.

Note 11: Statement of Budgetary Resources vs. Budget of the United States Government

The reconciliation as of September 30, 2014 is presented below. The 2017 Budget of the United States Government, with the Actual Column completed for FY 2015, had not been published as of the date of these financial statements. The budget is expected to be published and delivered to congress in early February 2016. The National Mediation Board Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>).

For the Fiscal Year Ended September 30, 2014 (In millions)

| | BUDGETARY RESOURCES | OBLIGATIONS INCURRED | DISTRIBUTED OFFSETTING RECEIPTS | NET OUTLAYS |
|--------------------------------------|---------------------|----------------------|---------------------------------|--------------|
| Statement of Budgetary Resources | \$ 16 | \$ 13 | \$ - | \$ 12 |
| Difference - Expired Appropriations | (3) | | | |
| Difference - Spending Reduction | | | | \$ 1 |
| BUDGET OF THE U.S. GOVERNMENT | \$ 13 | \$ 13 | \$ - | \$ 13 |

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Note 12: Reconciliation of Net Cost of Operations (Proprietary) to Budget

| RESOURCES USED TO FINANCE ACTIVITIES: | 2015 | 2014 |
|--|----------------------|----------------------|
| Budgetary Resources Obligated Obligations Incurred | \$ 13,013,229 | \$ 12,934,623 |
| Spending Authority From Offsetting Collections and Recoveries | \$ (972,997) | \$ (286,402) |
| Obligations Net of Offsetting Collections and Recoveries | \$ 12,040,232 | \$ 12,648,221 |
| Net Obligations | \$ 12,040,232 | \$ 12,648,221 |
| Other Resources Imputed Financing From Costs Absorbed By Others | \$ 398,515 | \$ 469,577 |
| Net Other Resources Used to Finance Activities | \$ 398,515 | \$ 469,577 |
| Total Resources Used to Finance Activities | \$ 12,438,747 | \$ 13,117,798 |
| 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 | \$ (423,501) | \$ (781,965) |
| Total Resources Used to Finance Items Not Part of Net Cost of Operations | \$ (423,501) | \$ (781,965) |
| Total Resources Used to Finance the Net Cost of Operations | \$ 12,015,246 | \$ 12,335,833 |
| 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 | \$ 2,373 | \$ 46,319 |
| Other | \$ 1 00,000 | - |
| Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods | \$ 102,373 | \$ 46,319 |
| Components Not Requiring or Generating Resources | | |
| Depreciation and Amortization | \$ 30,811 | \$ 43,462 |
| Other | \$ (939) | \$ (1,710) |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | \$ 29,872 | \$ 41,752 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period | \$ 132,245 | \$ 88,071 |
| NET COST OF OPERATIONS | \$ 12,147,491 | \$ 12,423,904 |