U.S. Merit Systems Protection Board

Agency Financial Report FY 2014

November 2014

United States

Merit Systems Protection Board

AGENCY FINANCIAL REPORT

For Fiscal Year 2014

NOVEMBER 2014

Table of Contents

U.S. Merit Systems Protection Board
Fiscal Year 2014
Agency Financial Report

Message from the Chairman

It is my honor to submit the Fiscal Year 2014 Agency Financial Report for the U.S. Merit Systems Protection Board (MSPB). I am pleased to report that as of September 30, 2014, MSPB has received an unqualified opinion on its financial statements.

In accordance with our legal requirements and Office of Management and Budget (OMB) guidance, I have determined that the financial data included in this report are complete and reliable. There are no material inadequacies or non-conformances in either the completeness or reliability of the financial data. MSPB has existing systems to guarantee the completeness and reliability of the financial data used in this report and is using OMB guidance to review and continually improve these systems. In addition, following an assessment of MSPB's comprehensive management control program, I certify, with reasonable assurance, that MSPB's systems of accounting and internal control comply with the provisions of the Federal Managers' Financial Integrity Act.

Respectfully,

Susan Tsui Grundmann
Chairman

November 17, 2014

U.S. Merit Systems Protection Board
FY 2014 Agency Financial Report

About MSPB

MSPB has its origin in the Pendleton Act of 1883, which established the Civil Service Commission (CSC) and a merit-based employment system for the Federal Government. The Pendleton Act was passed after the assassination of President Garfield by a disgruntled Federal job seeker and grew out of the 19th century reform movement to curtail the excesses of political patronage in government and ensure a stable highly qualified workforce to serve the public. Over time, it became clear that the CSC could not properly, adequately, and simultaneously set managerial policy, protect the merit systems, and adjudicate appeals. Concern over the inherent conflict of interest in the CSC's role as both rule-maker and judge was a principal motivating factor behind the passage of the Civil Service Reform Act of 1978 (CSRA). The CSRA replaced the CSC with three new agencies: MSPB as the successor to the Commission;[1] the Office of Personnel Management (OPM) to serve as the President's agent for Federal workforce management policy and procedure; and the Federal Labor Relations Authority (FLRA) to oversee Federal labor-management relations. The CSRA also codified for the first time the values of the merit systems as the MSPs (Merit System Principles) and defined the PPPs (Prohibited Personnel Practices).[2]

The MSPB Mission

The mission of the MSPB is to *protect the Federal merit systems and the rights of individuals within those systems*. MSPB carries out its statutory responsibilities and authorities primarily by adjudicating individual employee appeals, enforcing its decision, conducting objective, merit systems studies, and reviewing the rules, regulations and significant actions of the Office of Personnel Management to assess the degree to which those actions support adherence to the merit principles and do not lead to the commission of PPP's.

Board Organization

The agency is organized into offices designed to conduct and support its statutory functions. The agency has three appointed Board members and is authorized 226 Full-time Equivalents (FTE) with offices in Washington, D.C. (headquarters) and six regional and two field offices that are located throughout the United States.

MSPB program offices and their functions

The three **Board Members** adjudicate the cases brought to MSPB. The bipartisan Board consists of the Chairman, Vice Chairman, and Member, with no more than two of its three members from the same political party. Board members are nominated by the President, confirmed by the Senate, and serve over-lapping, non-renewable 7-year terms. The **Chairman**, by statute, is the chief executive and administrative officer of MSPB. The Office Directors report to the Chairman through the **Executive Director**.

---

[1] Bogdanow, M., and Lanphear, T., History of the Merit Systems Protection Board, Journal of the Federal Circuit Historical Society, Volume 4, 2010.

[2] Title 5 U.S.C. § 2301 and Title 5 U.S.C. § 2302, respectively.

The **Office of the Administrative Law Judge** (ALJ) adjudicates and issues initial decisions in corrective and disciplinary action complaints (including Hatch Act complaints) brought by the Special Counsel, proposed agency actions against ALJs, MSPB employee appeals, and other cases assigned by MSPB. The functions of this office are currently performed by ALJs at the United States Coast Guard, the Federal Trade Commission, and the Environmental Protection Agency under reimbursable interagency agreements.

The **Office of Appeals Counsel** conducts legal research and prepares proposed decisions for the Board in cases where a party petitions for review (PFR) of an administrative judge's (AJ) initial decision and in most other cases decided by the Board. The office prepares proposed decisions on interlocutory appeals of rulings made by judges, makes recommendations on reopening cases on the Board's own motion, and provides research, policy memoranda, and advice to the Board on legal issues.

The **Office of the Clerk of the Board** receives and processes cases filed at MSPB headquarters, rules on certain procedural matters, and issues MSPB decisions and orders. The office serves as MSPB's public information center, coordinates media relations, produces public information publications, operates MSPB's library and on-line information services, and administers the Freedom of Information Act and Privacy Act programs. The office also certifies official records to the courts and Federal administrative agencies and manages MSPB's records systems, legal research systems, and the Government in the Sunshine Act program.

The **Office of Equal Employment Opportunity** plans, implements, and evaluates MSPB's equal employment opportunity programs. It processes complaints of alleged discrimination brought by agency employees and provides advice and assistance on affirmative employment initiatives to MSPB's managers and supervisors.

The **Office of Financial and Administrative Management** administers the budget, accounting, travel, time and attendance, human resources, procurement, property management, physical security, and general services functions of MSPB. It develops and coordinates internal management programs, including review of agency internal controls. It also administers the agency's cross-servicing agreements with the U.S. Department of Agriculture, National Finance Center for payroll services, U.S. Department of the Treasury, Bureau of the Public Debt for accounting services, and U.S. Department of Agriculture, Animal and Plant Health Inspection Service for human resources management services.

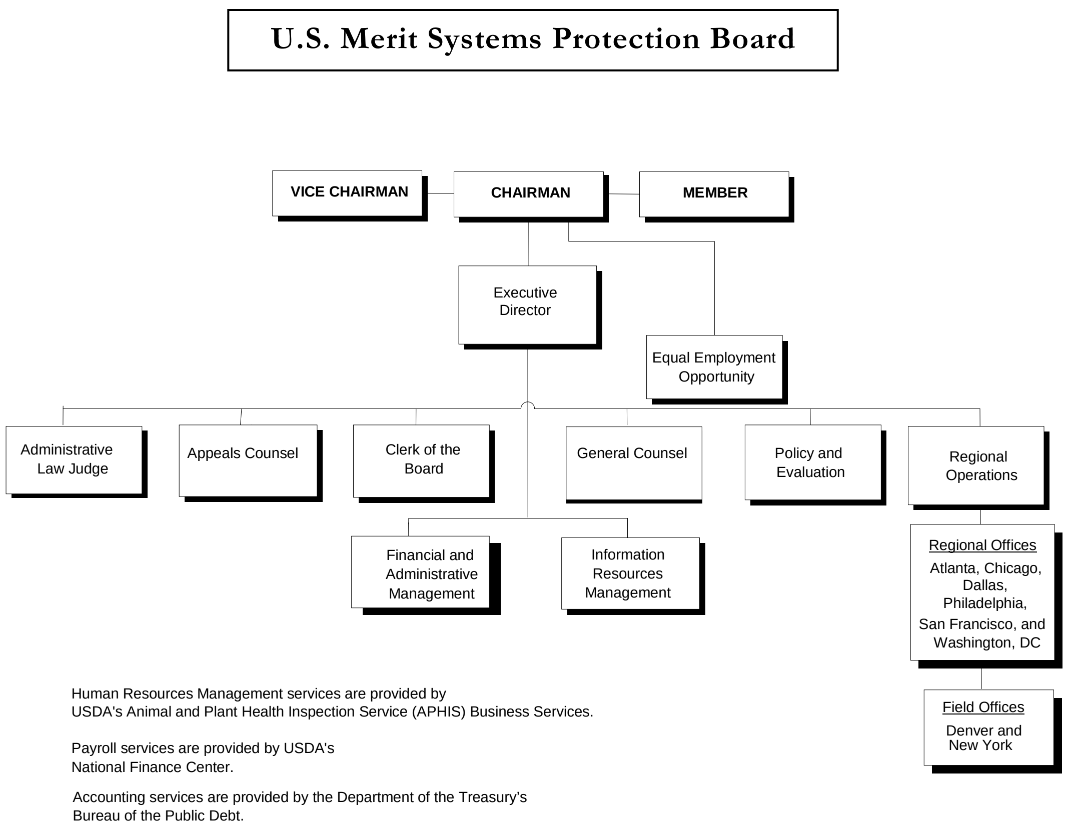
The **Office of the General Counsel**, as legal counsel to MSPB, advises the Board and MSPB offices on a wide range of legal matters arising from day-to-day operations. The office represents MSPB in litigation; prepares proposed decisions for the Board to enforce a final MSPB decision or order, in response to requests to review OPM regulations, and for other assigned cases; conducts the agency's petition for review settlement program; and coordinates the agency's legislative policy and congressional relations functions. The office drafts regulations, conducts MSPB's ethics program, and plans and directs audits and investigations.

The **Office of Information Resources Management** develops, implements, and maintains MSPB's automated information systems to help the agency manage its caseload efficiently and carry out its administrative and research responsibilities.

The **Office of Policy and Evaluation** carries out MSPB's statutory responsibility to conduct special studies of the civil service and other Federal merit systems. Reports of these studies are sent to the President and the Congress and are distributed to a national audience. The office provides information and advice to Federal agencies on issues that have been the subject of MSPB studies. The office reviews and reports on the significant actions of OPM. The office also conducts program evaluations for the agency and has responsibility for preparing MSPB's strategic and performance plans and performance reports required by the Government Performance and Results Modernization Act.

The **Office of Regional Operations** oversees the agency's six regional and two field offices, which receive and process appeals and related cases. It also manages MSPB's Mediation Appeals Program (MAP). AJs in the regional and field offices are responsible for adjudicating assigned cases and for issuing fair, well-reasoned, and timely initial decisions.

Organization Chart



Management Discussion and Analysis

MSPB has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR). MSPB will submit its FY 2014 APR with its Congressional Budget Justification and post it on the MSPB web site at www.mspb.gov at the time the President's 2016 budget is submitted to Congress in February 2015.

External Trends Affecting MSPB's Mission and Performance

A number of significant external trends and issues are likely to affect MSPB's mission to protect the Federal merit systems through FY 2015 and FY 2016.

External Trends

A number of significant external events have impacted MSPB and are likely to continue to affect MSPB's mission to protect the Federal merit systems through FY 2016 and should be considered as funding levels are determined for the MSPB in FY 2016. At MSPB, we recognize the financial challenges facing our nation with increasing pressure to cut fiscal spending and to reduce the size of the Federal Government. However, we feel that our agency has been impacted in a unique way. On March 1, 2013, Government-wide "sequestration" was implemented and MSPB sustained a decrease of over $2 million from its FY 2013 appropriation. As a result of sequestration, a number of Federal agencies furloughed staff, including the Department of Defense. Hundreds of thousands of Federal employees were furloughed, and as expected, tens of thousands exercised their statutory right[3] to appeal their furloughs to the MSPB, resulting in historical increases in the number of furlough appeals filed. In fact, more than 32,400 furlough appeals were filed with MSPB.[4]

In FY 2014, MSPB processed over 16,000 initial appeals and had over 23,600 initial appeals pending. Throughout FY 2014, we received new initial appeals that are added to our existing caseload that must be processed. Simply docketing these appeals and preparing to adjudicate them has been an overwhelming endeavor and has affected all offices of the agency. Congress recognized the need for additional resources to address the historical number of furlough appeals, thereby increasing our FY 2014 funding by $2.6 million more than the amount requested in the President's budget.

While we expect to make significant progress in processing the backlog of cases in FY 2015, it is likely we will begin FY 2016 with a significant backlog of cases including appeals and petitions for review (PFR) filed in FY 2015. As we noted in our FY 2015 budget justification to Congress, the only historical comparator for this volume of work at the Board are the Air Traffic Controller terminations that occurred in 1981. At that time, approximately 11,000 appeals were filed at the Board by terminated controllers. We would note, however, that at that time, MSPB had about twice the number of FTE than our current staffing level. Additionally, unlike the current furlough appeals, which are spread across various agencies Government-wide, all 11,000 appeals came from the Federal Aviation Administration.

An increase of furlough (and potentially reduction-in-force) appeals may persist for the foreseeable future if agencies continue to be faced with implementing adverse personnel actions to address ongoing budget

[3] Under 5 U.S.C. § 7512, a "furlough of 30 days or less" is an adverse action for which a covered employee is entitled to appeal to MSPB.
[4] Under the law, each appellant has a statutory right to a hearing, meaning that every case filed must be processed and adjudicated. 5 U.S.C. § 7701(a)(1)

reductions due to the resumption of sequestration in FY 2016. Based on the number of furlough appeals currently in the regions, our PFR receipts at the Board will likely be at historic levels in FY 2015 and beyond. In addition, if agencies continue to furlough their employees during FY 2016 and beyond due to additional budget cuts, or begin to reduce staffing levels through reductions in force (RIFs), PFR receipts could remain at historic levels for years to come.

Furthermore, significant changes in the law have had and will continue to have a direct impact on case processing. We anticipate that the recently passed Department of Veterans Affairs Management Accountability Act of 2014 will increase our workload, although we do not yet know how much of an increase we will see. The most significant aspect of that legislation; however, is that it will require MSPB to prioritize and devote resources for these cases to the detriment of all other appeals, since they must be completed within 21 days of being filed at MSPB. This is less than 20% of the 120-day time goal the Board has been operating under for many years. Thus, resources will need to be diverted from other categories of ongoing cases that will lead to delays in processing.

The Whistleblower Protection Enhancement Act (WPEA) will likely increase the number of whistleblower cases that will proceed to a hearing. It also provides additional rights to whistleblowers and those who engage in other protected activity in the Federal Government by expanding the scope of protected disclosures as well as MSPB's whistleblower jurisdiction and options for granting corrective action, all of which make adjudication of WPEA cases far more complex and time-consuming. The additional corrective action possibilities will also likely lead to more addendum appeals being filed as appellants seek compensatory damages and attorney fees. The law also permits review of MSPB decisions by multiple Federal Courts of Appeals, thereby leading to the likelihood of inconsistent precedent that could further complicate adjudication. Finally, the WPEA also requires MSPB to track and report more detailed information about whistleblowing cases in its performance reports, which requires more resources.

Additionally, the Hatch Act Modernization Act of 2012 may increase the number of Hatch Act cases MSPB handles. Further, revisions to management flexibilities, such as the Pathways Program, are anticipated to continue. In the recent past, such management flexibilities have generated numerous complex cases challenging various aspects of the revisions, such as the Outstanding Scholar Program, Federal career Intern Program, and the National Security Personnel System.

Interim Summary of MSPB's FY 2014 Program Performance

This performance summary contains interim FY 2014 performance results compared to the Annual Performance Plan for FY 2014, which was developed under MSPB's Strategic Plan for FY 2012-2016. MSPB is continuing to verify and validate its performance results for FY 2014. Final results will be published in the FY 2014 Annual Performance Report (APR) in February 2015.

Strategic Objective 1A: Provide high-quality resolution of appeals through adjudication and alternative dispute resolution.

Interim FY 2014 results indicate that this objective was **SUBSTANTIALLY MET**. MSPB exceeded its adjudication performance goal targets related to decision quality for initial appeals and cases left unchanged by the U.S. Court of Appeals for the Federal Circuit. Due to the arrival of 32,400 furlough cases in FY 2013, MSPB set no target for average processing time for initial appeals for FY 2014. Even without a target, MSPB regional and field offices issued decisions in over 16,000 decisions, including approximately one third of the furlough cases, and about 70% of its non-furlough initial appeals. The average processing time for petitions for review (PFRs) was longer than the target. However, MPSB reduced significantly the number of pending PFRs at HQ. Adequate progress was made in FY 2014 to obtain a survey platform to support obtaining customer feedback from adjudication and ADR customers. In accordance with the Whistleblower Protection Enhancement Act of 2012, FY 2014 whistleblowing information will be reported in February 2015 in the FY 2014 APR.

Strategic Objective 1B: Enforce timely compliance with MSPB decisions.

Interim results indicate that this objective was **NOT MET**. The weighted average processing time of compliance/ enforcement cases closed at HQ and in the regional and field offices was longer than the target level. HQ closed a larger number of enforcement cases than normal, including several older cases, which increased the weighted average processing time.

Strategic Objective 1C: Conduct objective, timely studies of the Federal of Federal merit systems and human capital management issues.

Interim results indicate this objective was **MET**. MSPB exceeded the performance targets for publication of *Issues of Merit* newsletter editions and flash content articles, which contained articles covering all the Merit System Principles and several Prohibited Personnel Practices. Four new merit system study reports were approved and published in FY 2014 including reports on Perceptions of Favoritism, The role of Training and Experience in Hiring, Sexual Orientation and the Federal Workplace, and Practices and Perceptions on Veteran Hiring in the Civil Service. MSPB also published a catalog of research highlights from several studies published between 2008 and 2014. In addition, MSPB began the process of updating its merit systems studies research agenda, including holding a public meeting for the Board members to hear from and ask questions of representatives from several stakeholder groups with an interest in MSPB's studies function.

Strategic Objective 1D: Review and act upon the rule, regulations, and significant actions of the Office of Personnel Management (OPM), as appropriate. Interim results indicate this objective was **MET**. The Board issued decisions on requests for MSPB review of OPM regulations, but did not initiate of review of an OPM regulation on its own motion. MSPB published its Annual Report for FY 2013, which contained review of OPM significant actions covering a broad range of merit system principles and updates of significant actions initiated in earlier years.

Strategic Objective 2A: Inform, promote, and/or encourage actions by policy-makers, as appropriate, that strengthen Federal merit systems laws and regulations.

Interim data indicate this objective was **EXCEEDED**. MSPB studies, cases, and issues regarding furlough appeals were cited hundreds of times in the print and electronic media, trade publications (on Federal management and legal issues), wire services, major city daily newspapers, Congressional sources, and a variety of websites and blogs. MSPB sent a letter to the President expressing concerns about legal issues related to the Veterans Access, Choice, and Accountability Act of 2014, and met with Congress about the proposed SES Accountability Act. MSPB's Chairman testified at a House Hearing examining the Administration's policy toward whistleblowers. References to MSPB were included in House and Senate proposed legislation to allow employees who occupy sensitive positions to appeal to MSPB. MSPB posted merit system study report highlights for all reports published in 2014 and for several previously published reports on the website including information focused on policy issues and policy-makers.

Strategic Objective 2B: Support and improve the practice of merit, adherence to MSPs, and prevention of PPPs in the workplace through outreach.

Interim results indicate this objective was **EXCEEDED**. MSPB conducted significantly more outreach presentations related to adjudication, studies, and general merit issues than the number targeted (not including outreach related to furlough appeals or telephonic interviews). In addition, MPSB conducted nine radio interviews on legal and merit systems studies topics.

Strategic Objective 2C: Advance the understanding of the concept of merit, MSPs, and PPPs through the use of educations standards, materials, and guidance established by MSPB.

Interim results indicate this objective was **MET**. The number of visits to pages on the MSPB website related to improving the understanding and practice of merit of merit were greater than anticipated. However, the number of accesses to documents on the website were lower than in FY 2013. MSPB posted merit systems educational materials including a report and regulations on how MSPB will implement the SES appeal provisions of the Veterans Access, Choice, and Accountability Act. MSPB posted research highlights for all study reports published in FY 2014, four highlights on reports published previously, and a catalog of research highlights from several studies published between 2008 and 2014. MSPB also posted educational materials related to development of a new merit systems studies research agenda, a Special Panel Oral Argument on a mixed case, and guidance for attorneys interested in providing pro bono representation.

Management Objective M1: Lead and manage employees to ensure an engaged workforce with competencies to perform the mission.

Interim results indicate this objective is likely to be **MET**. Results for employee competency, diversity, and engagement were within 10% of the target. Interim results for inclusion are not yet available.

Management Objective M2: Manage Budget and financial resources and improve efficiency to ensure current and future resources. Interim results indicate this objective was **MET**. MSPB selected the proportion of funded positions left vacant for 6 months or more as the measure for budget justification and resource accountability. Significant progress was made in pilot testing the electronic processing of furlough appeals and in moving forward with MSPB's e-Adjudication efforts. Approximately 55 percent of initial appeals and 83 percent of pleadings were filed electronically in FY 2014.

Management Objective M3: Manage information technology and information services programs to support our mission.

Interim results indicate this objective was **MET**. Adequate progress was made in the procurement of a survey platform to support obtaining customer feedback from current web users. The downtime for critical IT systems was below the target value. The target for percent of IT help desk tickets (internal and external) closed within service level agreement was achieved.

Management Objective M4: Ensure individual and workplace safety and security.

Interim results for this measure are not yet available.

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA)

In accordance with the FMFIA, MSPB has established an internal management control system to ensure that: (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; (3) revenues and expenditures are properly recorded and accounted for; and (4) expenditures are being made in accordance with the agency's mission and they are achieving their intended results.

Federal Financial Management Improvement Act (FFMIA)

The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. The intent and the requirements of this Act go well beyond the directives of the CFO Act and the Government Management Reform Act of 1994 (GMRA) to publish audited financial reports.

MSPB's management review of the system of internal accounting and administrative control was evaluated in accordance with the applicable Federal guidance. The objectives of the system are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports; and,
- Accountability over the assets is maintained.

The evaluation of management controls extends to every MSPB responsibility and activity and is applicable to financial, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that: (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that the procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Improper Payments Act

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. At MSPB, developing strategies and the means to reduce improper payments is a matter of good stewardship. Accurate payments lower program costs. This is particularly important, as budgets have become increasingly tight.

OMB originally provided Section 57 of Circular A-11 as guidance for Federal agencies to identify and reduce improper payments for selected programs. The Improper Payments Information Act of 2002 (IPIA) broadened the original erroneous payment reporting requirements to programs and activities beyond those originally listed in Circular A-11. In August 2006, OMB issued Circular A-123, Appendix C - Requirements for Effective Measurement and Remediation of Improper Payments.

The IPIA defines improper payments as those payments made to the wrong recipient, in the wrong amount, or used in an improper manner by the recipient. The IPIA requires a Federal agency to identify its programs that are of high risk for improper payments. It also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets and to report annually on the extent of its improper payments for high-risk programs and the actions taken to increase the accuracy of payments.

To coordinate and facilitate MSPB's efforts under the IPIA, the Chief Financial Officer works with Office Directors to develop a coordinated strategy to perform annual reviews for all programs and activities susceptible to improper payments. This cooperative effort includes developing actions to reduce improper payments, identifying and conducting ongoing monitoring techniques, and establishing appropriate corrective action initiatives. MSPB has determined that there is no significant risk of improper payments based on the review of its programs in FY 2014.

Message from the Chief Financial Officer

I am pleased to present the U.S. Merit Systems Protection Board (MSPB) financial statements for FY 2014 and to report that MSPB has earned an unqualified opinion on its FY 2014 consolidated financial statements. I am also particularly pleased to report that, once again, under the leadership of our Chairman, Susan Tsui Grundmann, no material weaknesses were identified in the auditor's report on internal controls. As in previous years, we are proud of our accomplishments in receiving this unqualified opinion as it validates our efforts in preserving the integrity of our financial reporting.

MSPB has partnered with the Department of the Treasury Bureau of Public Debt (BPD) in Parkersburg, West Virginia, since 1992. BPD, designated by the Office of Management and Budget as a Center of Excellence, is responsible for handling our administrative payments and preparing our financial statements. Through its franchise operation, BPD has provided us with timely and complete reports to satisfy our day-to-day operating needs as well as the reporting requirements for Congress, our auditors, and other external reviewing organizations.

This working relationship between MSPB and BPD has facilitated the Agency's compliance with all external reporting requirements. The timeliness and completeness of the reports allow us to operate more efficiently and to identify and correct any potential problems quickly. Reports and communications between MSPB and BPD are virtually all electronic in compliance with efforts to increase the use of e-Government applications.

We take our financial accountability seriously and are committed to strengthening our financial performance. While we are proud of our accomplishment of receiving unqualified opinions for the past ten years, we are committed to continue our work on improving our financial management performance during the coming years while efficiently accomplishing the mission of MSPB – to protect the Federal merit systems and the rights of individuals within those systems.

Kevin J. Nash
Chief Financial Officer
November 17, 2014

Notes on the Financial Statements`

Improving financial management continues to be a high priority of MSPB. It is an essential element in demonstrating accountability and enhancing services provided to the public. Financial improvements initiated by MSPB have been driven by recent legislation and external initiatives, as well as by a strict organizational belief that adherence to sound financial policies and procedures will directly enhance the efficiency and effectiveness of the agency. This is of particular importance in an era of financial uncertainty and tightening budgets. Pivotal to driving better performance results through enhanced financial management practices has been MSPB's ongoing efforts to provide day-to-day decision-makers with reliable budgetary and cost information.

Limitations of the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of this entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that the MSPB is a component of the U.S. Government, a sovereign entity.

The principal financial statements summarize MSPB's financial position, net cost of operations, and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenues for FY 2013 and FY 2014.

INDEPENDENT AUDITOR'S REPORT

U.S. Merit Systems Protection Board
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying balance sheets of the U.S. Merit Systems Protection Board (MSPB) as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 14-2, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-2, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

1101 MERCANTILE LANE, SUITE 122 ● LARGO, MD 20774
PHONE: (240) 770-4900 ● FAX: (301) 773-2090 ● mail@brownco-cpas.com ● www.brownco-cpas.com

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSPB as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSPB's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSPB's internal control. Accordingly, we do not express an opinion on the effectiveness of MSPB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSPB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Management's Responsibility for Internal Control and Compliance

MSPB's management is responsible for (1) evaluating effectiveness of internal control based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring MSPB's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal controls to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 14-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

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

We did not test compliance with all laws and regulations applicable to MSPB. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 14-02 that we deemed applicable to MSPB's financial statements for the fiscal year ended September 30, 2014. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MSPB's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSBP's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of MSPB, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 12, 2014

MERIT SYSTEMS PROTECTION BOARD
BALANCE SHEET
AS OF SEPTEMBER 30, 2014 AND 2013
(In Dollars)

	2014	2013
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	$ 12,429,481	$ 8,663,049
Accounts Receivable (Note 3)	3,954	3,954
Other (Note 5)	74,109	67,469
Total Intragovernmental	12,507,544	8,734,472
Accounts Receivable, Net (Note 3)	4,170	4,480
Property, Equipment, and Software, Net (Note 4)	470,428	216,514
Total Assets	$ 12,982,142	$ 8,955,466
Liabilities:		
Intragovernmental		
Accounts Payable	$ 7,016	$ 4,071
Other (Note 8)	263,614	232,392
Total Intragovernmental	270,630	236,463
Accounts Payable	108,197	98,943
Federal Employee and Veterans' Benefits (Note 7)	517,337	527,962
Other (Note 8)	3,415,628	3,079,347
Total Liabilities (Note 6)	$ 4,311,792	$ 3,942,715
Net Position:		
Unexpended Appropriations - Other Funds	$ 11,494,417	$ 7,923,608
Cumulative Results of Operations - Other Funds	(2,824,067)	(2,910,857)
Total Net Position	$ 8,670,350	$ 5,012,751
Total Liabilities and Net Position	$ 12,982,142	$ 8,955,466

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Dollars)

	2014	2013
Program Costs: (Note 11)		
Adjudication		
Gross Costs	$ 36,264,767	$ 34,924,134
Less: Earned Revenue	-	(3,192)
Net Program Costs	$ 36,264,767	$ 34,920,942
Management Support		
Gross Costs	$ 4,746,497	$ 4,914,293
Net Program Costs	$ 4,746,497	$ 4,914,293
Merit System Studies		
Gross Costs	$ 1,753,531	$ 1,751,854
Net Program Costs	$ 1,753,531	$ 1,751,854
Net Cost of Operations	$ 42,764,795	$ 41,587,089

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Dollars)

		2014		2013
Cumulative Results of Operations:				
Beginning Balances	$	(2,910,857)	$	(3,013,646)
Budgetary Financing Sources:				
Appropriations Used		38,321,181		37,165,096
Transfers In/Out Without Reimbursement		2,345,000		2,340,310
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources (Note 10)		2,185,404		2,184,472
Total Financing Sources		42,851,585		41,689,878
Net Cost of Operations		(42,764,795)		(41,587,089)
Net Change		86,790		102,789
Cumulative Results of Operations	$	(2,824,067)	$	(2,910,857)
Unexpended Appropriations:				
Beginning Balances	$	7,923,608	$	7,889,792
Budgetary Financing Sources:				
Appropriations Received		42,740,000		40,258,000
Other Adjustments		(848,010)		(3,059,088)
Appropriations Used		(38,321,181)		(37,165,096)
Total Budgetary Financing Sources		3,570,809		33,816
Total Unexpended Appropriations	$	11,494,417	$	7,923,608
Net Position	$	8,670,350	$	5,012,751

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Dollars)

	2014	2013
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 5,484,692	$ 4,856,845
Recoveries of Prior Year Unpaid Obligations	60,249	782,888
Other changes in unobligated balance	(848,010)	(953,353)
Unobligated balance from prior year budget authority, net	4,696,931	4,686,380
Appropriations	42,740,000	38,152,265
Spending authority from offsetting collections	2,345,431	2,345,829
Total Budgetary Resources	$ 49,782,362	$ 45,184,474
Status of Budgetary Resources:		
Obligations Incurred (Note 13)	$ 41,646,414	$ 39,699,782
Unobligated balance, end of year:		
Apportioned (Note 2)	6,382,325	2,965,352
Unapportioned (Note 2)	1,753,623	2,519,340
Total unobligated balance, end of year	8,135,948	5,484,692
Total Budgetary Resources	$ 49,782,362	$ 45,184,474
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 3,182,311	$ 4,925,885
Obligations Incurred (Note 13)	41,646,414	39,699,782
Outlays (gross)	(40,470,989)	(40,660,468)
Recoveries of Prior Year Unpaid Obligations	(60,249)	(782,888)
Unpaid Obligations, End of Year (Gross)	4,297,487	3,182,311
Uncollected payments:		
Uncollected Customer Payments, Federal Sources, Brought Forward, October 1	(3,954)	-
Change in Uncollected Payments, Federal Sources	-	(3,954)
Uncollected Customer Payments, Federal Sources, End of Year	(3,954)	(3,954)
Obligated Balance, End of Year	$ 4,293,533	$ 3,178,357
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 45,085,431	$ 40,498,094
Actual offsetting collections	(2,345,431)	(2,341,875)
Change in Uncollected Payments, Federal Sources	-	(3,954)
Budget Authority, net, (total)	$ 42,740,000	$ 38,152,265
Outlays, gross	$ 40,470,989	$ 40,660,468
Actual offsetting collections	(2,345,431)	(2,341,875)
Agency outlays, net	$ 38,125,558	$ 38,318,593

U. S. MERIT SYSTEMS PROTECTION BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Merit Systems Protection Board (MSPB) is an independent, quasi-judicial agency in the Executive branch that serves as the guardian of federal merit systems. The Board was established by the Civil Service Reform Act of 1978 (CSRA) with a mission of ensuring that employees are protected against abuses by agency management, that Executive branch agencies make employment decisions in accordance with the merit systems principles, and that federal merit systems are kept free of prohibited personnel practices. The MSPB reporting entity is comprised of General Funds and General Miscellaneous Receipts.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. MSPB manages Operations and Facilities, Engineering and Development General Fund accounts.

General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

The MSPB has rights and ownership of all assets reported in these financial statements. The MSPB does not possess any non-entity assets.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the MSPB. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of MSPB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and the MSPB accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the MSPB's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. 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. 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. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the MSPB's funds with Treasury in expenditure, receipt, and revolving fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The MSPB does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

E. Accounts Receivable

Accounts receivable consists of amounts owed to the MSPB by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

F. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. The MSPB's capitalization threshold is $50,000 for individual purchases and $500,000 for bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Office Equipment	10
Leasehold Improvements	10
Software	5

G. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

H. Liabilities

Liabilities represent the amount of funds likely to be paid by the MSPB as a result of transactions or events that have already occurred.

The MSPB reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

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. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, Federal Employees' Compensation Act (FECA), and the amounts due to Treasury for collection and accounts receivable of civil penalties and Freedom of Information Act (FOIA) request fees. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as components requiring or generating resources on the Reconciliation of Net Cost to Budget.

I. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY 2012 and 100% in 2014.

J. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the MSPB employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the MSPB terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

K. Retirement Plans

The MSPB employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of MSPB matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and the MSPB matches any employee contribution up to an additional four percent of pay. For FERS participants, the MSPB also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the MSPB remits the employer's share of the required contribution.

The MSPB recognizes the imputed cost of pension and other retirement benefits during the 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 communicate these factors to the MSPB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The MSPB recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The MSPB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

L. Other Post-Employment Benefits

The MSPB employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided the MSPB with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The MSPB recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the MSPB through the recognition of an imputed financing source.

M. Use of Estimates

The preparation of the accompanying financial statements in accordance with 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.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The MSPB recognized imputed costs and financing sources in fiscal years 2014 and 2013 to the extent directed by accounting standards.

O. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The MSPB recognizes contingent liabilities in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The MSPB discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote.

P. Reclassification

Certain fiscal year 2013 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2014 and 2013, were as follows:

	2014	2013
Fund Balances:		
Appropriated Funds	$ 12,429,481	$ 8,663,049
Total	$ 12,429,481	$ 8,663,049
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 6,382,325	$ 2,965,352
Unavailable	1,753,623	2,519,340
Obligated Balance Not Yet Disbursed	4,293,533	3,178,357
Total	$ 12,429,481	$ 8,663,049

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

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 on hand. (see also Note 14)

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2014 and 2013, were as follows:

	2014	2013
Intragovernmental		
Accounts Receivable	$ 3,954	$ 3,954
Total Intragovernmental Accounts Receivable	$ 3,954	$ 3,954
With the Public		
Accounts Receivable	$ 4,170	$ 4,480
Total Public Accounts Receivable	$ 4,170	$ 4,480
Total Accounts Receivable	$ 8,124	$ 8,434

The accounts receivable is primarily made up of Federal and Non-Federal Travel reimbursements and employee receivables.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2014 and 2013

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2014

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 1,785,765	$ 1,694,979	$ 90,786
Furniture & Equipment	483,027	103,385	379,642
Software	9,415,576	9,415,576	-
Total	$ 11,684,368	$ 11,213,940	$ 470,428

Schedule of Property, Equipment, and Software as of September 30, 2013

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 1,785,765	$ 1,672,844	$ 112,921
Furniture & Equipment	177,797	74,204	103,593
Software	9,415,576	9,415,576	-
Total	$ 11,379,138	$ 11,162,624	$ 216,514

NOTE 5. OTHER ASSETS

Other assets account balances as of September 30, 2014 and 2013, were as follows:

	2014	2013
Intragovernmental		
Advances and Prepayments	$ 74,109	$ 67,469
Total Other Assets	$ 74,109	$ 67,469

Advance Balance consists entirely of an advance printing account with the US Government Printing Office

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the MSPB as of September 30, 2014 and 2013, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

		2014		2013
Intragovernmental – FECA	$	98,790	$	101,991
Unfunded Leave		2,682,539		2,501,899
Federal Employee and Veterans' Benefits		517,337		527,962
Total Liabilities Not Covered by Budgetary Resources	$	3,298,666	$	3,131,852
Total Liabilities Covered by Budgetary Resources		1,013,126		810,863
Total Liabilities	$	4,311,792	$	3,942,715

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on the MSPB's behalf and payable to the DOL. The MSPB also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 7. ACTUARIAL FECA LIABILITY

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for the MSPB's employees are administered by the DOL and ultimately paid by the MSPB when funding becomes available.

The MSPB bases its estimate for FECA actuarial liability on the DOL's FECA model. The DOL method of determining the liability uses historical benefits payment patterns for a specific incurred period to predict the ultimate payments for the period. Based on the information provided by the DOL, The MSPB's liability as of September 30, 2014 and 2013, was $517,337 and $527,962, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2014 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ 11,269	$ 87,521	$ 98,790
Payroll Taxes Payable	164,824	-	164,824
Total Intragovernmental Other Liabilit	$ 176,093	$ 87,521	$ 263,614
With the Public			
Payroll Taxes Payable	$ 27,145	$ -	$ 27,145
Accrued Funded Payroll and Leave	705,944	-	705,944
Unfunded Leave	2,682,539	-	2,682,539
Total Public Other Liabilities	$ 3,415,628	$ -	$ 3,415,628

Other liabilities account balances as of September 30, 2013 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ 40,660	$ 61,331	$ 101,991
Payroll Taxes Payable	130,401	-	130,401
Total Intragovernmental Other Liabilit	$ 171,061	$ 61,331	$ 232,392
With the Public			
Payroll Taxes Payable	$ 20,861	$ -	$ 20,861
Accrued Funded Payroll and Leave	556,587	-	556,587
Unfunded Leave	2,501,899	-	2,501,899
Total Public Other Liabilities	$ 3,079,347	$ -	$ 3,079,347

NOTE 9. LEASES

Operating Leases

At September 30, 2014, the MSPB leased office space at 9 locations under operating lease agreements that expire between 2016 and 2023. The total operating lease expenses as of September 30, 2014 and 2013 were $3,614,319 and $3,220,786 respectively. Below is a schedule of future payments for the terms of the leases.

The MSPB also occupies a warehouse space at one location with a lease agreement accounted for as an operating lease. The (Washington, DC warehouse) lease began on April 1, 2003 and expired on March 31, 2013. The MSPB continues to lease the space on a month to month basis until a new lease can be negotiated. The agency currently estimates annual rent at $34,000.

Fiscal Year		Office Space
2015	$	3,498,861
2016		3,603,657
2017		3,780,242
2018		3,889,020
2019		3,951,930
Thereafter		13,831,720
Total Future Payments	$	32,555,430

NOTE 10. IMPUTED FINANCING SOURCES

The MSPB recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the years ended September 30, 2014 and 2013, imputed financing was $2,185,404 and 2,184,472 respectively.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between the MSPB and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

		2014		2013
Adjudication				
Intragovernmental Costs	$	11,738,448	$	11,094,598
Public Costs		24,526,319		23,829,536
Total Program Costs		36,264,767		34,924,134
Public Earned Revenue		-		(3,192)
Net Program Costs		36,264,767		34,920,942
Management Support				
Intragovernmental Costs	$	1,297,425	$	1,317,694
Public Costs		3,449,072		3,596,599
Net Program Costs		4,746,497		4,914,293
Merit Systems Studies				
Intragovernmental Costs		313,656		307,497
Public Costs		1,439,875		1,444,357
Net Program Costs		1,753,531		1,751,854
Total Intragovernmental costs		13,349,529		12,719,789
Total Public costs		29,415,266		28,870,492
Total Costs		42,764,795		41,590,281
Total Public Earned Revenue		-		(3,192)
Total Net Cost	$	42,764,795	$	41,587,089

NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2014 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2015 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2015 Budget of the United States Government, with the "Actual" column completed for 2013, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2014 and 2013 consisted of the following:

	2014	2013
Direct Obligations, Category A	$ 39,300,983	$ 37,355,519
Reimbursable Obligations, Category A	2,345,431	2,344,263
Total Obligations Incurred	$ 41,646,414	$ 39,699,782

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2014 and 2013, budgetary resources obligated for undelivered orders amounted to $3,358,469 and $2,438,917 respectively.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The MSPB has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 41,646,414	$39,699,782
Spending Authority From Offsetting Collections and Recoveries	(2,405,680)	(3,128,717)
Net Obligations	39,240,734	36,571,065
Other Resources		
Imputed Financing From Costs Absorbed By Others	2,185,404	2,184,472
Net Other Resources Used to Finance Activities	2,185,404	2,184,472
Total Resources Used to Finance Activities	41,426,138	38,755,537
Resources Used to Finance Items Not Part of the Net Cost of Operations	1,106,391	2,773,754
Total Resources Used to Finance the Net Cost of Operations	42,532,529	41,529,291
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	232,266	57,798
Net Cost of Operations	$ 42,764,795	$41,587,089