NMB2011

Financial Reports

CFO Letter

I am pleased to present the National Mediation Board's (NMB) Fiscal Year 2011 financial statements. These statements demonstrate the NMB's commitment to and accountability for the taxpayers' dollars entrusted to us. This report fulfills the requirements of the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Managers' Financial Integrity Act, and the Government Management Reform Act.

For the fourteenth consecutive year, Allmond & Company reported that the financial statements included in this report were presented fairly, in all material respects, and in conformity with the U.S. generally accepted accounting principles (GAAP) for Federal agencies. In FY 2010, the auditors identified a material weakness regarding the untimely recording of obligations related to arbitration services. The NMB began its review of the auditors' finding during the fourth quarter of FY 2011 and will correct the material weakness in FY 2012.

The NMB continues to strive to maintain an environment in which program and financial managers work to ensure the integrity of financial information and use that information in decision making and performance measurement.

June D.W. King

June D.W. King
Director, Office of Administration
and Chief Financial Officer

Audit Reports

September 30, 2011
ALLMOND & COMPANY, LLC
Certified Public Accountants
8181 Professional Place, Suite 250
Landover, Maryland 20785
(301) 918-8200

Contents

Independent Auditor's Report

Board Members
National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30,2011, and the related statements of net cost, changes in net position, and statement of budgetary resources for the year then ended (the principal financial statements). These financial statements are the responsibility ofNMB management and were prepared by NMB in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and OMB Bulletin No. 07-04, Audit Requirements/or *Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinIon.

In our opinion, the principal financial statements referred to above present fairly, in all material respects, the financial position ofNMB as of September 30, 2011, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States.

The information in the *Management and Discussion Analysis* section of this report is not a required part of the principal financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation ofthis information. However we did not audit this information and, accordingly, we express no opinion on it.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. In accordance with *Government Auditing Standards*, we issued separate reports dated October 24,2011 on NMB's internal control and compliance with laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read together with this report.

Allmond & Company LLC

ALLMOND & COMPANY, LLC
October 24, 2011
Landover, Maryland

Independent Auditor's Report on Internal Control

Board Members
National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 20 II, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (the principal financial statements) and issued our report thereon, dated October 24, 2011. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered NMB's internal control over financial reporting by obtaining an understanding ofNMB's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the principal financial statements. We limited internal control testing to that necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as the internal control relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not express an opinion on internal control.

With respect to internal control related to performance measures reported in NMB management's overview, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin 07-04. We also assessed control risk relevant to NMB intra-agency transactions and balances. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not express an opinion on such control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, control deficiencies exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the NMB's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the NMB's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

In our fiscal year 2011 audit, we noted, one matter described in Exhibit I that we considered to be a material weakness. This control weakness was also considered to be a material in the FY 2010 audit.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information ofNMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

Allmond & Company LLC

ALLMOND & COMPANY, LLC
October 24, 2011
Landover, Maryland

Exhibit 1

Material Weakness
Improvements Were Needed in Recording Obligations Related to Arbitration Services

During FY 2010, NMB appointed an arbitrator to hear a case or a group of related cases by issuing a Certificate of Appointment. The Certificate of Appointment must be signed by both parties (NMB and arbitrator); it commits NMB to pay the arbitrator once an award is made on a case and requires the arbitrator to hear a case or group of related cases. We noted NMB did not record an obligation in the general ledger once the Certificate of Appointment is signed by both parties.

We recommended NMB develop and implement policies and procedures requiring an obligation to be established in the general ledger once a Certificate of Appointment has been signed by NMB and an arbitrator, and the Office of Administration reconcile obligations established in the general ledger to the amount of open cases heard by an arbitrator per the Case Management System.

As part of NMB's FY 2010 corrective action plan, NMB terminated all Certificates of Appointments effective July 1, 2011 and eligible arbitrators were issued letters indicating that they were available to do work as assigned by NMB during the period of July 1, 2011 through September 30, 2011.

During our FY 2011 audit, we noted NMB management still needs to make improvements in recording obligations related to arbitration services. NMB has not fully implemented policies and procedures to record obligations related to arbitration services in the general ledger when they are incurred (once arbitrator is assigned to a case). Specifically, the following weaknesses were identified (1) a document no longer exists that evidences that an arbitrator has been assigned to hear a case; (2) there is no procedure in place that notifies Office of Administration that an arbitrator has been assigned to hear a case (obligation was incurred); and (3) obligations related to arbitration services were established on a month-to-month basis in the general ledger.

Statements of Federal Financial Accounting Concepts (SFFAC) *5 Elements of Accrual Basis Financial Statements and Basic Recognition Criteria* paragraph 42 states, "As the term is used in this Statement, an obligation is a duty or responsibility to act in a certain way. To have a present obligation means that the obligation arose as a result of a past transaction or other event and has not yet been settled. Thus, a present obligation should be distinguished from a mere expression of future intent, such as the government's announcement that it intends to acquire equipment. A present obligation is incurred when the government takes a specific action or an event occurs that commits or binds the government."

At the end of FY 2011, NMB had assigned approximately 2,182 cases to arbitrators to hear. NMB had not established an estimate of the full obligation in the general ledger for all costs associated (travel, hearing the case, and writing a decision) with obtaining an award on the 2,182 cases in which an arbitrator had been assigned to hear at the time the obligation was incurred. NMB established an obligation in the general ledger in September 2011 for (1) arbitrators to write an award on the 661 cases that were heard as of FY 2011; and (2) arbitrators to hear and write an award on 1,521 cases that had not been heard by the end of FY 2011.

Government Accountability Office (GAO) Standards on Internal Control in the Federal Government states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

It is NMB practice to establish obligations related to arbitration cases in the general ledger on a month to month basis for expenses that the arbitrator will incur while hearing the case, and once the arbitrator makes an award on a case. Also, at the end of the fiscal year they establish an obligation for cases assigned to an arbitrator that have not been heard or an award has not been provided as of September 30.

As a result, obligations recorded in the general ledger during the fiscal year related to arbitration were understated by approximately $600,000 during FY 2011. Also, not recording obligations in the general ledger when incurred may lead to NMB incurring more obligations than funds made available to them by governing bodies.

Since NMB management still is not recording obligations related to arbitration when incurred, we consider the recommendations made in the FY 2010 audit unresolved and open. To close the recommendations, management needs to do the following:

1 Develop and implement policies and procedures requiring the estimation of the full obligation required for an arbitrator to write an award on cases that have been assigned to be recorded in the general ledger at the time it is incurred.

2 Develop a document that must be used by the Office of Arbitration to assign an arbitrator to hear a case. This document should be approved by the Director of Arbitration before an obligation is established in the general ledger for all cost associated with the arbitrator rendering an award on the assigned case.

3 Office of Administration and Arbitration reconcile the status of obligations established in the general ledger to the amount of cases assigned to an arbitrator per the Case Management System.

4 Monitor activities performed monthly by Office of Administration and Office of Arbitration over the funds that remain available for obligation related to arbitration services.

5 Develop a mechanism to estimate and update obligations related to arbitration as more information about the status of the case becomes available.

Management Response

NMB Management concurs with the recommendations identified above and has already put those recommendations in place.

Cancelling the Certificates of Appointment and issuing letters to contractors indicating that they were available to do work, as assigned, for the NMB, the agency is fully compliant with the cited language from the SFFAC: the agency has moved from an obligation to a notice of intent.

Establishment of the Arbitrator Workspace puts in place controls on which cases are assigned to an arbitrator, and allows for tracking of all work associated with a case, from assignment to receipt of the arbitrator's determination. This allows a full accounting of the obligation at the point funds are approved. A "report on demand" feature of the Arbitrator Workspace will allow the Offices of Administration and Arbitration to review, at any time, the status of cases, the status of obligations, and the status of funds for Section 3. Actions taken in the Arbitrator Workspace will be instantly recorded in the Arbitration case management data base, and will be evidence of agency actions sufficient to establish an audit trail for all transactions.

The Arbitrator Workspace is being testing during the first quarter of FY 2012 with approximately 20 percent of the active arbitrators involved as the test group. This test period will confirm the efficacy of the system design and will allow for development of adequate communication between the Offices of Administration and Arbitration. The Arbitrator Workspace and all of its audit functions will be fully operational and mandatory for all arbitrators at the beginning of calendar year 2012.

Independent Auditor's Report On Compliance

Board Members
National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 2011, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (the principal financial statements) and issued our report thereon, dated October 24, 2011.

We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements/or Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

NMB management is responsible for complying with laws and regulations. As part of obtaining reasonable assurance about whether NMB's financial statements are free of material misstatement, we performed tests of its compliance with:

- Certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
- Certain other laws and regulations specified in OMB Bulletin o. 07-04.

We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to NMB. Our audit was not designed to provide an opinion on compliance with provisions of laws and regulations. Accordingly, we do not express such an opinion.

Our tests disclosed no instances of material noncompliance required to be reported under *Government Auditing Standards*. Additionally, we did not note any instances of immaterial noncompliance.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information ofNMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

Allmond & Company LLC

ALLMOND & COMPANY, LLC
October 24, 2011
Landover, Maryland

Financial Statements

National Mediation Board
Balance Sheet
As of September 30, 2011 and September 30, 2010

Assets	**2011**	**2010**
Entity Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 4,695,777	$ 4,140,310
Real Estate, Property and Equipment (Note 3)	174,567	208,355
Total Assets	**$ 4,870,344**	**$ 4,348,665**

Liabilities and Net Position	**2011**	**2010**
Liabilities:		
Intragovernmental Liabilities:		
Accounts Payable	$ 240,907	$ 85,488
Governmental Liabilities:		
Accounts Payable	487,457	361,664
Accrued Payroll and Benefits	130,139	331,386
Capital Lease Liability (Note 8)	120,481	130,892
Contingent Arbitrator Liability (Note 9)	542,520	486,900
Unfunded Annual Leave	413,336	412,471
Total Liabilities	**1,913,060**	**1,808,801**
Net Position:		
Unexpended Appropriated Capital	3,716,794	3,259,683
Cumulative Results of Operations	(781,290)	(719,819)
Total Net Position	**2,935,504**	**2,539,864**
Total Liabilities and Net Position	**$ 4,870,344**	**$ 4,348,665**

Financial Statements

National Mediation Board
Statement of Net Cost
For the Year Ended September 30, 2011 and September 30, 2010

Costs	**2011**	**2010**
Mediation/Representation, Arbitration, and Emergency Board		
Intragovernmental	$ 4,001,276	$ 3,493,783
With the Public	9,187,747	8,914,332
Total	13,189,023	12,408,115
Less Revenue from Services	0	0
Net Program Costs	**$ 13,189,023**	**$ 12,408,115**
Total Assets	**$ 13,189,023**	**$ 12,408,115**

National Mediation Board
Statement of Changes in Net Position
For the Year Ended September 30, 2011 and September 30, 2010

	2011	**2010**
Unexpended Appropriations		
Beginning Balance – October 1, 2010	$ 3,259,683	$ 2,707,490
Prior Period Adjustments	(28,803)	8,158
Beginning Balance Adjusted	$ 3,230,881	$ 2,715,648
Appropriations Received	13,463,000	13,463,000
Other Adjustments	(358,876)	(469,620)
Appropriations Used	(12,618,211)	(12,449,345)
Total Unexpended Appropriations	**$ 3,716,794**	**$ 3,259,683**
Cumulative Results of Operations		
Beginning Balance – October 1, 2010	$ (719,819)	$ (1,239,365)
Prior Period Adjustments – All Other Funds	28,803	(8,158)
Beginning Balance as Adjusted – All Other Funds	$ (691,016)	$ (1,247,523)
Appropriations Used – All Other Funds	12,618,211	12,449,345
Imputed Financing – All Other Funds (Note 5)	480,538	486,474
Net Cost of Operations – All Other Funds	(13,189,023)	(12,408,115)
Total Cumulative Result of Operations	**$ (781,290)**	**$ (719.819)**
Net Position	**$ 2,935,504**	**$ 2,539,864**

Financial Statements

National Mediation Board
Statement of Budgetary Resources
For the Year Ended September 30, 2011 and September 30, 2010

	2011	2010
Budgetary Resources		
Budget Authority	$ 13,463,000	$ 13,463,000
Unobligated Balance – Beginning Period	2,324,226	2,153,324
Spending Authority from Offsetting Collections	0	90
Recoveries of Prior Year Obligations	0	0
Adjustments	(358,876)	(469,620)
Appropriations Used	(12,618,211)	(12,449,345)
Total Budgetary Resources	**$ 15,428,350**	**$ 15,146,794**
Status of Budgetary Resources		
Obligations Incurred (Note 10)	$ 12,827,444	$ 12,822,568
Unobligated Balance – Available	467,152	466,420
Unobligated Balance – Not Available	2,133,754	1,857,806
Total Status of Budgetary Resources	**$ 15,428,350**	**$ 15,146,794**
Outlays		
Obligations Incurred	12,827,444	12,822,568
Less: Spending authority from offsetting collections and adjustments	(0)	(90)
Recoveries of Prior Year Obligations	(0)	(0)
Obligated Balance, Net – Beginning Period	1,816,083	1,599,537
Obligated Balance, Transferred, Net	(2,094,871)	(1,816,083)
Less: Obligated Balance, Net – End of Period		
Net Outlays	**$ 12,548,656**	**$ 12,605,931**

Note 1: Summary of Significant Accounting Policies

Description of 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 key 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 avoidance of interruptions to interstate commerce;
- The protection of employee rights to self-organization; and
- The prompt and orderly resolution of disputes over the interpretation or application of existing agreements.

These financial statements include all activity related to NMB's appropriation (No. 95112400), the principal funding for all NMB activities.

NMB prepares its financial statements to be in conformity with generally accepted accounting principles.

NMB does not hold any non-entity assets and has no earmarked funds as described by the Government Accountability Office (GAO).

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

Basis of Accounting
NMB's financial statements are prepared under the accrual method of accounting. 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. NMB also uses budgetary accounting to facilitate compliance with legal constraints and to keep track of its budget authority at the various stages of execution, including allotment, obligation, and eventual 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.

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 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.

NMB also earns revenue when it bills for copies of subscriptions. These subscriptions are for determinations on the cases NMB handles.

Fund Balances with the US Department of the Treasury
NMB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by Treasury. The balance of funds with Treasury represents appropriated fund balances that are available to pay current liabilities and finance authorized purchase obligations relative to goods or services that have not been received.

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.

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.

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.

Accrued Leave
Accrued payroll and benefits reflect salaries and benefits that have been earned, but not disbursed as of September 30, 2011.

Unfunded Annual Leave
Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of non-vested leave are charged to expense as the leave is used.

Liabilities Not Covered By Budgetary Resources
These liabilities are not funded by direct budgetary authority. Liabilities not covered by budgetary resources result from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods for which appropriations, revenues, or other financing sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity. Liabilities not covered by budgetary resources as of September 30, 2011 and September 30, 2010 were:

	FY 2011	FY 2010
Unfunded Annual Leave	$ 413,336	$ 412,471
Contingent Arbitrators Liabilities	$ 542,520	$ 486,900

Net Position
Appropriated fund balance consists of the following components:

Unexpended appropriated capital - represents amounts of unavailable and available budget authority that are unobligated, or obligated but not expended. The obligated amount represents amounts for goods and/or services outstanding for which funds have been obligated, but the liabilities have not been accrued.

	FY 2011	FY 2010
Unobligated, available	$ 0	$ 0
Unobligated, unavailable	2,600,906	2,324,227
Undelivered Orders	1,115,888	935,456
Unexpended Appropriated Capital	**$ 3,716,794**	**$ 3,259,683**

Future funding requirements - represents the liabilities not covered by available budgetary resources.

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.

During fiscal years 2011 and 2010, NMB paid $70,803 and $82,795 for CSRS, and $464,031 and $406,059 for FERS, respectively for its employees' coverage.

Tax Status
NMB, as an independent Board of the executive branch, a federal agency, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income tax is recorded.

Note 2: Fund Balances with Treasury

Fund balances with Treasury were entirely entity assets from appropriations and consisted of the following:

	FY 2011	FY 2010
Obligated	$ 2,094,871	$ 1,816.083
Unobligated Available	0	0
Unobligated Restricted	2,600,906	2,324,226
Fund Balance with Treasury	**$ 4,695,777**	**$ 4,140,309**

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. Property and equipment, and related accumulated depreciation, at September 30, 2011 and September 30, 2010 consisted of:

	FY 2011	FY 2010
Equipment-Capitalized	$ 93,553	$ 187,300
Capital Lease	182,353	160,959
	275,906	348,259
Less: Accumulated Depreciation	(101,339)	(139,904)
Total Property and Equipment, net	**$ 174,567**	**$ 208,355**

Note 4: Program/Operating Expenses

Although OMB Circular A-136 only requires that operating expenses be broken out by program and object classification if the principal statements may be misleading for FY 2011, NMB has chosen to display its operating expenses by object classification for FY 2011 and FY 2010 for a more clear presentation.

	FY 2011	FY 2010
Personnel Compensation	$ 7,188,686	$ 7,665,815
Personnel Benefits	1,496,094	1,490,352
Travel of Persons	627,539	626,323
Transportation of Things	1,422	5,902
Rent/Comm/Utilities	1,530,393	1,276,370
Printing	4,376	41,899
Other Services	1,457,584	1,007,180
Supplies	161,180	129,792
Equipment	118,885	338,820
Total	**$ 12,586,159**	**$ 12,582,452**

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 postemployment 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. For the period ending September 30, 2011 the Normal Cost, employer's total pension expense, employer's contribution and imputed financing amounts were as follows:

Employee Type	**Normal Cost**	**Employer's Total Pension Expense**	**Employer's Contribution**	**Employer's Imputed Financing Expense**
CSRS	$ 312,344	$ 72,638	$ 72,638	$ 167,068
FERS	597,109	34,615	506,245	56,249
Total	$ 909,453	$ 107,253	$ 578,883	$ 223,317
Health Insurance				256,148
Life Insurance				1,073
Total				**257,221**
Grand Total Imputed Financing				**$ 480,538**

September 30, 2010

Employee Type	**Normal Cost**	**Employer's Total Pension Expense**	**Employer's Contribution**	**Employer's Imputed Financing Expense**
CSRS	$ 330,909	$ 76,956	$ 76,956	$ 176,998
FERS	531,249	30,797	431,159	69,293
Total	$ 862,159	$ 107,753	$ 508,115	$ 246,292
Health Insurance				239,193
Life Insurance				990
Total				**240,183**
Grand Total Imputed Financing				**$ 486,474**

Note 6: Obligated Balances, Net, End of Period as of September 30, 2011

The components of the obligated balance as of September 30, 2011 and September 30, 2010 are:

	FY 2011	FY 2010
Equipment-Capitalized	$ 1,115,888	$ 935,456
Capital Lease	978,983	880.627
Total Property and Equipment, net	**$ 2,094,871**	**$ 1,816,083**

Note 7: Statement of Financing

For the Year Ended September 30, 2011 and September 30, 2010

	2011	2010
Resources Used to Finance Activities		
Obligations Incurred	$ 12,827,444	$ 12,822,568
Less: Spending authority for offsetting collections and Recoveries of Prior Year Obligations	(0)	(90)
Imputed Financing (Note 5)	480,538	486,474
Total Budgetary Resources to Finance Activities	**$ 13,307,982**	**$ 13,308,952**
Less: Resources Not Used to Finance Net Cost of Operations		
Change in Amount of Goods, Services and Benefits ordered but not yet Received or Provided	$ 180,430	$ 373,132
Costs Capitalized on the Balance Sheet	72,353	211,096
Other	6,645	0
Total Resources Not Used to Finance Net Cost of Operations	**$ 259,428**	**$ 584,229**
Total Resources Used to Finance Net Cost of Operations	**$ 13,048,554**	**$ 12,724,722**
Costs that do not require Resources:		
Depreciation and Amortization	$ 55,181	$ 39,313
Change in Future Funded Liabilities	56,485	(378,925)
Revaluation of Assets and Liabilities	28,803	23,004
Total Costs that do not require Resources	**140,469**	**(316,607)**
Net Cost of Operations	**$ 13,189,023**	**$ 12,408,115**

Note 8: 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, 2000 and expires on October 31, 2011. 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. The operating rent and taxes was to be inflated by 0.76% from 2010 to 2011 to estimate the escalation that the market will yield. GSA is currently renewing a new lease.

Capital Leases
NMB entered into a capital lease on December 6, 2006 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 $6,555.84 annually at an interest rate of 9.5 percent was determined to be $25,215. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2011 and 2009 was $0 and 5,987, respectively.

NMB entered into a capital lease on October 6, 2008 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 $1,671 annually at an interest rate of 9.5 percent was determined to be $6,415.23 for the second machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2010 and 2009 was $2,919 and 4,192, respectively.

NMB entered into a capital lease on October 6, 2008 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 $7,033 annually at an interest rate of 9.5 percent was determined to be $27,006 for the last machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2010 and 2009 was $12,289 and 17,646, respectively.

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, 2011 and 2010 was $84,704 and 102,089, respectively.

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, 2011 and 2010 was $17,765 and 21,393, respectively.

Note 9: Contingent Arbitrator Liabilities

By law, NMB is required to appoint an arbitrator if a grievance adjustment board cannot resolve a grievance. NMB appoints an arbitrator by approving the request from the Arbitrator to hear a specific case or a specified group of related cases and a work order setting out the daily rate of compensation, per diem, and travel costs. NMB's policy is to record an obligation at the beginning of each month when it approved an arbitrator's compensation request. Since such arbitrator services are considered nonseverable services, NMB record an estimated obligation amount for the service outstanding due to arbitrator appointments at the end of each fiscal year for financial reporting purposes. Using the caseload table on the website as of September 15, 2011, NMB had a total number of cases that have not been assigned to Arbitrators of 1,224. Based on our historical assumption the contingent liability is $542,520 which assumes an average of 1.5 days to decide the cases and an average of 122 days @ 300 to hear the cases.

Note 10: Apportionment Categories of Obligations Incurred

Obligations Incurred reported on the Statement of Budgetary Resources in 2011 and 2010consists of the following:

Direct Obligations	FY 2011	FY 2010
Category A	$ 12,769,920	$ 12,822,568
Category B	57,524	0
Total Obligations Incurred	**$ 12,827,444**	**$ 12,822,668**

Management Assurances

This section provides information on NMB's compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Improper Payments Information Act, as well as other management information, initiatives, and issues. FMFIA requires that agencies establish controls that provide reasonable assurance that:

- obligations and costs comply with applicable law;
- assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for.

It also requires the Chairman to provide an assurance statement on the adequacy of management controls.

Assurance Statement (FMFIA)
The NMB's management is responsible for establishing and maintaining effective internal controls that meet the obligations of FMFIA within their areas of responsibility. Based on the directors' knowledge of daily operations and other management reviews, the NMB is able to provide an unqualified statement of assurance that the internal controls meet the objectives of FMFIA.

Linda A. Puchala
Chairman
October 26, 2011

Improper Payments Information Act
The NMB is considered to be at low risk for improper payments since the functional payment areas are limited to traveler reimbursement, commercial vendors for supplies and services, and the payroll EFT payments. The NMB does not administer any entitlement, grant, or loan programs.

Federal Travel Card Program
The NMB is a full participant in the Federal Travel Card Program, and has issued travel credit cards to employees whose official duties may require frequent travel. The Office of Administration routinely monitors each employee's usage of the travel card to ensure that charge activities are restricted to official government travel-related expenses, and that the employee is paying his/her credit card bills on-time.

During FY 2011, employees were reimbursed for authorized travel-related expenses an average of one business day after receipt of their completed travel voucher.

During this same period, no NMB employee's travel card account was identified as being delinquent and no inappropriate usage of the travel card was identified.

Federal Purchase Card Program
During this period, the NMB continued its use of the U .S. Government's purchase card program to expedite the purchase of authorized supplies and services. The NMB has an internal process which requires a purchase request for all requests. This purchase request is reviewed and approved by the office director before being submitted to the Office of Administration for action. The OA staff determines the appropriate contracting vehicle to procure the requested goods and/or services. The Office of Administration has an internal operating procedure which supplements the coverage in the Federal Acquisition Regulation (FAR) Subpart 1.6, Contracting Authority and Responsibilities.

Federal Information Security Management Act (FISMA)
The Federal Information Security Management Act (FISMA) requires an annual, independent evaluation of each agency's information technology (IT) security program. The NMB continued to work with the Bureau of the Public Debt to perform a review of the NMB's technology security program. The results of the review, form the basis of the NMB's annual FISMA report to OMB, and associated Plans of Action & Milestones (POA&M). The NMB provides its employees and contractors with annual Information Systems Security Awareness training as required by this Act. During this fiscal year, the NMB systems were certified and accredited for the next three years.

FMFIA Material Weakness In Management Operations
In the NMB's 2010 financial audit, the auditors identified a material weakness with the untimely recording of obligations related to arbitration services. These services are payments made to the arbitrators, contractors, who hear and decide minor disputes in the railroad industry. After a review of the current procedures which gave raise to this material weakness, the NMB revised its procedures during the last quarter of the fiscal year. The NMB expects to fully eliminate this material weakness during the FY 2012 reporting cycle.

Statistical Summary of Performance

Report pursuant to Section 2 of the Integrity Act: Internal Control System

Overall Compliance: Yes

Number of Material Weaknesses:

Period Reported	Reported	Corrected	Pending
Prior Years	0	N/A	0
2006 Report	0	N/A	0
2007 Report	0	N/A	0
2008 Report	0	N/A	0
2009 Report	0	N/A	0
2010 Report	1	0	1
2011 Report	1	0	1
Total	**1**	**0**	**1**

Pending Material Weaknesses (by function):

Category	Number	Year First Reported
Program management	1	2010
Functional management:	0	N/A
• Procurement	0	N/A
• Grant management	0	N/A
• Personnel & organizational management	0	N/A
• ADP security	0	N/A
• Payment systems and cash management	0	N/A
• Loan management and debt collection	0	N/A
• Property and inventory management	0	N/A
Total	**1**	**2010**

Report pursuant to Section 4 of the Integrity Act: Systems and Conformance

Overall Compliance: Yes

Management Systems

Existing Systems	Total	In Conformance
Prior Years	1	1
2006 Report	1	1
2007 Report	1	1
2008 Report	1	1
2009 Report	1	1
2010 Report	1	1
2011 Report	1	1
Total	**1**	**1**

Pending Nonconformance

Material nonconformance	Reported	Corrected	Pending
Prior Years	0	N/A	0
2006 report	0	N/A	0
2007 report	0	N/A	0
2008 report	0	N/A	0
2009 report	0	N/A	0
2010 report	0	N/A	0
2011 report	0	N/A	0
Total	**0**	**N/A**	**0**

Report pursuant to Section 4 of the Integrity Act:
Financial Management Systems

Overall Compliance: Yes, Achieved 1988

Number of Material Weaknesses

Period Reported FY	Reported	Corrected	Pending
Prior Years	0	N/A	0
2006 Report	0	N/A	0
2007 Report	0	N/A	0
2008 Report	0	N/A	0
2009 Report	0	N/A	0
2010 Report	0	N/A	0
2011 Report	0	N/A	0
Total	**0**	**N/A**	**0**

Pending Nonconformance

Period Report: FY 2011	Number	Year First Reported
General ledger control	0	N/A
Interfaces	0	N/A
Data accuracy, timeliness, comparability, usefullness	0	N/A
Property	0	N/A
Cash management	0	N/A
Receivables	0	N/A
Program costs	0	N/A
Payroll	0	N/A
Systems documentation	0	N/A
Audit trails, security	0	N/A
Other	0	N/A
Total	**0**	**N/A**