



U.S. Merit Systems Protection Board

**Agency
Financial
Report
FY 2016**

November 2016

United States
Merit Systems Protection Board



AGENCY FINANCIAL REPORT

For Fiscal Year 2016

NOVEMBER 2016

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**U.S. Merit Systems Protection Board
Fiscal Year 2016
Agency Financial Report**

Message from the Chairman

It is my honor to submit the Fiscal Year 2016 Agency Financial Report for the U.S. Merit Systems Protection Board (MSPB). I am pleased to report that as of September 30, 2016, MSPB has received an unmodified 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 15, 2016

U.S. Merit Systems Protection Board

FY 2016 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 has three appointed Board members and was authorized 248 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**.

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

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.

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 Fiscal Service (BFS) for accounting services, and U.S. Department of Agriculture, Animal and Plant Health Inspection Service for human resources management services.

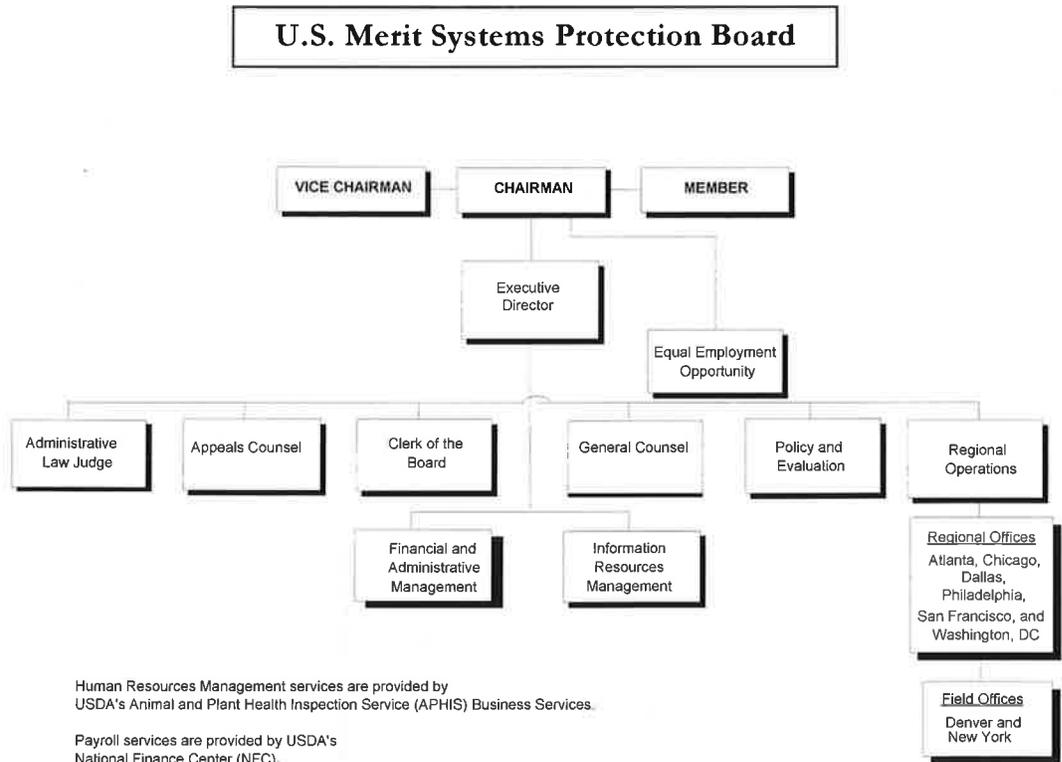
The **Office of the General Counsel**, as legal counsel to MSPB, advises the Board and MSPB offices on a wide range of legal matters arising from day-to-day operations. The office represents MSPB in litigation; prepares proposed decisions for the Board to enforce a final MSPB decision or order, in response 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



Human Resources Management services are provided by USDA's Animal and Plant Health Inspection Service (APHIS) Business Services.

Payroll services are provided by USDA's National Finance Center (NFC).

Accounting services are provided by the Department of the Treasury's Bureau of Fiscal Services (BFS)

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 2016 APR with its Congressional Budget Justification and post it on the MSPB web site at www.mspb.gov at the time the President's FY 2018 budget is submitted to Congress in 2017.

Interim Summary of MSPB's FY 2016 Program Performance

This performance summary contains interim FY 2016 performance results compared to the Annual Performance Plan for FY 2016, which was developed under MSPB's Strategic Plan for FY 2016-2018. MSPB is continuing to verify and validate its performance results for FY 2016. Final results will be published in the FY 2016 APR in Spring 2017.

Strategic Objective 1A: Provide high-quality resolution of appeals through adjudication and alternative dispute resolution. Interim FY 2016 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. As MSPB processed the furlough cases from FY 2013 and began to work on the non-furlough cases that had accrued during furlough processing, it set no numeric target for average processing time for initial appeals for FY 2016. In FY 2016, MSPB regional and field offices issued over 8,000 decisions, including 99.5% of the furlough cases (cumulative from 2013), and about 78% of its non-furlough initial appeals workload. MSPB Headquarters issued over 1,000 decisions, and the average processing time for petitions PFR was substantially less than the target. MSPB collected PFR and ADR customer feedback and designed new automated web-based surveys for adjudication and ADR that will be implemented in early FY 2017. In accordance with the Whistleblower Protection Enhancement Act of 2012, FY 2015 whistleblowing information will be reported in Spring 2017 in the FY 2016 APR.

Strategic Objective 1B: Enforce timely compliance with MSPB decisions. Interim results indicate that this objective was **Not Met**. Although slightly lower than in 2015, the weighted average processing time for compliance enforcement cases closed at HQ and in the regional and field offices was more than 10% higher than the target level.

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 "Noteworthy" web articles including an article on reasonable cause to use indefinite suspensions and situations involving potentially criminal behavior. Newsletter and flash content articles covered almost all the Merit System Principles (MSPs) and all of the Prohibited Personnel Practices (PPPs). Three new merit system study reports were approved and published in FY 2016 including reports on Training and Development in the Senior Executive Service (SES), Preventing Nepotism in the Federal Civil Service, and the MSPs: Guiding Fair and Effective Management in the Federal Workforce. MSPB administered the 2016 Merit Principles Survey to approximately 120,000 Federal employees in 24 Federal agencies. The survey was fully compliant with Federal IT and security requirements and the content covered topics such as PPPs, sexual and other workplace harassment, employee engagement, and dealing with poor performers. Results from the survey and information gathered through other research methods will contribute to study reports for years to come.

Strategic Objective 1D: Review and act upon the rules, regulations, and significant actions of the Office of Personnel Management (OPM), as appropriate. Interim results indicate this objective was **MET**. The Board issued nine decisions in response to requests for review OPM regulations. MSPB published its Annual Report for FY 2015, which contained the review of OPM 2015 significant actions, including updates of significant actions initiated in earlier years. The OPM significant actions reviewed covered a broad range of MSPs and PPPs.

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 cases, studies, reports, newsletter articles and other products 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. GAO cited a MSPB studies report in its August 2016 report on OPM's oversight of hiring authorities. The Chairman testified and submitted a statement for the record to the House Committee on Oversight and Government Reform Subcommittee on Government Operations for the MSPB (and Office of Government Ethics and Office of Special Council) reauthorization hearing on December 16, 2015. MSPB merit system study reports were noted during Congressional discussions of veterans' hiring procedures, addressing employee misconduct, and preventing discrimination against Federal employees based on sexual orientation. MSPB posted research highlights for all of the merit systems study reports issued in 2016, and an updated guide to MSPs on the MSPB website.

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 exceeded the target for the number of outreach events conducted in FY 2016. Outreach events covered topics related to MSPB adjudication processes and legal precedent, Federal employment law, merit systems studies, and general merit issues to various audiences including Federal labor law attorneys and human resources professionals, the Chief Human Capital Officers Council, professional conferences and International representatives.

Strategic Objective 2C: Advance the understanding of the concept of merit, MSPs, and PPPs through the use of education standards, materials, and guidance established by MSPB. Interim results indicate this objective was **Exceeded**. The number of visits to pages on the MSPB website related to improving the understanding and practice of merit was more than 30 percent above the targeted range. New educational and informational materials were posted or otherwise made available related to: the interim final rule for discovery in compliance proceedings; the Chairman's record testimony from MSPB's December 16, 2015 reauthorization hearing in the House of Representatives; *Research Highlights* for all 2016 merit systems studies reports; the Chairman's radio interview on Department of Veteran's Affairs SES appeals; two radio interviews and a webinar (in collaboration with OPM) on merit systems studies reports; and updated guide on the MSPs. MSPB eliminated the collection of customer feedback from current web users from its performance plan because it is unlikely we will have the resources necessary to make changes to the MSPB website in the foreseeable future.

Management Objective M1: Lead and manage employees to ensure an engaged workforce with competencies to perform the mission. Interim results for this objective indicate the objective will likely be **Substantially Met**. The results for employee competency from OPM's 2016 Federal Employee Viewpoint Survey (FEVS) did not meet the target likely due to the departure of several long-serving highly-experienced MSPB employees. Results for diversity and employee engagement from OPM's 2016 FEVS and for inclusion

from the 2016 MSPB Internal Survey were within the targeted ranges.

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 was within 10% of the target for percent of funded positions left vacant for six months or more. Several improvements were made to adjudication systems to improve efficiency including implementing new e-Appeal servers and upgrading the e-Appeal LiveCycle and Active Portable Document Format document conversion/assembly software. We expanded the e-Case Files (ECFs) Pilot to the Denver Field Office. We also submitted personnel actions to support adding business analysis and other skills to help ensure expertise needed for e-Adjudication modernization efforts. Approximately 61 percent of initial appeals and 81 percent of pleadings were filed electronically in FY 2016.

Management Objective M3: Manage information technology and information services programs to support our mission. Interim results indicate this objective was **Met**. Several steps were taken to stabilize and upgrade the IT infrastructure and monitor operations and backups, and we began a new IT Testing Group (ITTG) to test new technology and applications. M3 performance goals, measures, and targets was assessed and adjusted for FY 2017 and beyond to take advantage of Internal Survey data for measures related to meeting user business needs, internal customer service and availability and reliability of IT infrastructure. Necessary IT actions were taken to achieve the targets listed for 1A-1 (new Law Manager report), 1A-3, 1A-6, 1C-3, 2B-1, and 2C-3 (goal discontinued). The need for IT/Info Services expertise was among the priorities in the Strategic Human Capital Plan (draft) submitted to the front office.

Management Objective M4: Ensure individual and workplace safety and security. Interim results for this measure indicate this objective was **Met**. The average percent positive responses from the Internal Survey questions on workforce and workplace safety and security was within the targeted range.

Management Assurances

Federal Managers' Financial Integrity Act (FMFLA)

In accordance with the FMFLA, 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 (FFMLA)

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 2016.

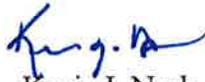
Message from the Chief Financial Officer

I am pleased to present the MSPB financial statements for FY 2016 and to report that MSPB has earned an unmodified opinion on its FY 2016 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, BFS in Parkersburg, West Virginia, since 1992. BFS, 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, BFS 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 BFS 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 BFS 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 15, 2016

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 2015 and FY 2016.

MERIT SYSTEMS PROTECTION BOARD

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**



**Prepared By
Brown & Company CPAs and Management Consultants, PLLC
November 10, 2016**



MERIT SYSTEMS PROTECTION BOARD

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**

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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, 2016 and 2015, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted government auditing standards 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. 15-2, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-2, 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 includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express 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.

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, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles 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 U.S. generally accepted government auditing standards, 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. *The Message From The Chairman, Message From the CFO* and the *Other Information* sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subject to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 providing an opinion on internal control. Accordingly, we do not express such an opinion.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered 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. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the MSPB. The objective was not to provide an opinion on compliance with those provisions of laws, regulations, contracts and grant agreements, 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. 15-02.

Management's Responsibility for Internal Control and Compliance

MSPB's management is responsible for (1) evaluating effectiveness of internal control over financial reporting 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, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting 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. 15-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

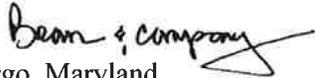
We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. 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. 15-02 that we deemed applicable to MSPB's financial statements for the fiscal year ended September 30, 2016. 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 U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.



Largo, Maryland
November 10, 2016

**MERIT SYSTEMS PROTECTION BOARD
BALANCE SHEET
AS OF SEPTEMBER 30, 2016 AND 2015
(In Dollars)**

	2016	2015
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 13,045,930	\$ 12,179,668
Accounts Receivable (Note 3)	3,954	3,954
Other (Note 5)	15,192	57,720
Total Intragovernmental	13,065,076	12,241,342
Accounts Receivable, Net (Note 3)	476	3,597
Property, Equipment, and Software, Net (Note 4)	856,519	965,391
Total Assets	\$ 13,922,071	\$ 13,210,330
Liabilities:		
Intragovernmental		
Accounts Payable	\$ 436,890	\$ 395,715
Other (Note 8)	360,416	302,759
Total Intragovernmental	797,306	698,474
Accounts Payable	157,456	211,063
Federal Employee and Veterans' Benefits (Note 7)	467,129	491,954
Other (Note 8)	3,925,918	3,545,728
Total Liabilities (Note 6)	\$ 5,347,809	\$ 4,947,219
Net Position:		
Unexpended Appropriations - Other Funds	\$ 11,096,891	\$ 10,573,440
Cumulative Results of Operations - Other Funds	(2,522,629)	(2,310,329)
Total Net Position	\$ 8,574,262	\$ 8,263,111
Total Liabilities and Net Position	\$ 13,922,071	\$ 13,210,330

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF NET COST
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015
(In Dollars)

	2016	2015
Program Costs: (Note 10)		
Adjudication		
Gross Costs	\$ 39,890,356	\$ 39,702,075
Less: Earned Revenue	-	1,674
Net Program Costs	\$ 39,890,356	\$ 39,703,749
Management Support		
Gross Costs	\$ 4,911,044	\$ 4,542,157
Net Program Costs	\$ 4,911,044	\$ 4,542,157
Merit Systems Studies		
Gross Costs	\$ 2,549,465	\$ 2,223,820
Net Program Costs	\$ 2,549,465	\$ 2,223,820
Net Cost of Operations	\$ 47,350,865	\$ 46,469,726

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015
(In Dollars)

	2016	2015
Cumulative Results of Operations:		
Beginning Balances	\$ (2,310,329)	\$ (2,824,067)
Budgetary Financing Sources:		
Appropriations Used	42,776,282	42,708,650
Transfers In/Out Without Reimbursement	2,345,000	2,345,000
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	2,017,283	1,929,814
Total Financing Sources	47,138,565	46,983,464
Net Cost of Operations	(47,350,865)	(46,469,726)
Net Change	(212,300)	513,738
Cumulative Results of Operations	\$ (2,522,629)	\$ (2,310,329)
Unexpended Appropriations:		
Beginning Balances	\$ 10,573,440	\$ 11,494,417
Budgetary Financing Sources:		
Appropriations Received	44,490,000	42,740,000
Other Adjustments	(1,190,267)	(952,327)
Appropriations Used	(42,776,282)	(42,708,650)
Total Budgetary Financing Sources	523,451	(920,977)
Total Unexpended Appropriations	\$ 11,096,891	\$ 10,573,440
Net Position	\$ 8,574,262	\$ 8,263,111

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015
(In Dollars)

	2016	2015
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	\$ 6,812,010	\$ 8,135,948
Recoveries of Prior Year Unpaid Obligations	821,810	400,181
Other changes in unobligated balance	(1,184,432)	(946,872)
Unobligated balance from prior year budget authority, net	6,449,388	7,589,257
Appropriations	44,490,000	42,740,000
Spending authority from offsetting collections	2,345,000	2,346,087
Total Budgetary Resources	\$ 53,284,388	\$ 52,675,344
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 12)	\$ 45,421,905	\$ 45,863,334
Unobligated balance, end of year:		
Apportioned, unexpired account (Note 2)	6,838,858	5,700,439
Expired unobligated balance, end of year (Note 2)	1,023,625	1,111,571
Unobligated balance, end of year (total)	7,862,483	6,812,010
Total Budgetary Resources	\$ 53,284,388	\$ 52,675,344
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 5,371,612	\$ 4,297,487
New obligations and upward adjustments (Note 12)	45,421,905	45,863,334
Outlays (gross)	(44,784,306)	(44,389,028)
Recoveries of Prior Year Unpaid Obligations	(821,810)	(400,181)
Unpaid Obligations, End of Year (Gross)	5,187,401	5,371,612
Uncollected payments:		
Uncollected Customer Payments, Federal Sources, Brought Forward, October 1	\$ (3,954)	\$ (3,954)
Uncollected Customer Payments, Federal Sources, End of Year	\$ (3,954)	\$ (3,954)
Memorandum entries:		
Obligated Balance, Start of Year	\$ 5,367,658	\$ 4,297,487
Obligated Balance, End of Year (Note 2)	\$ 5,183,447	\$ 5,367,658
Budget Authority and Outlays, Net:		
Budget authority, gross	\$ 46,835,000	\$ 45,086,087
Actual offsetting collections	(2,350,835)	(2,351,542)
Recoveries of prior year paid obligations	5,835	5,455
Budget Authority, net, (total)	\$ 44,490,000	\$ 42,740,000
Outlays, gross	\$ 44,784,306	\$ 44,389,028
Actual offsetting collections	(2,350,835)	(2,351,542)
Agency outlays, net	\$ 42,433,471	\$ 42,037,486

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



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 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 and the Government Management Reform Act of 1994 and the Accountability of the 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 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 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 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. 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:

<u>Description</u>	<u>Useful Life (years)</u>
Leasehold Improvements	10
Office Equipment	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, actuarial Federal Employees' Compensation Act (FECA), and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees.

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 100%.

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 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 (FEGSIP) 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 2016 and 2015 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 2015 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, 2016 and 2015, were as follows:

	2016	2015
Fund Balances:		
Appropriated Funds	\$ 13,045,930	\$ 12,179,668
Total	\$ 13,045,930	\$ 12,179,668
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ 6,838,858	\$ 5,700,439
Unavailable	1,023,625	1,111,571
Obligated Balance Not Yet Disbursed	5,183,447	5,367,658
Total	\$ 13,045,930	\$ 12,179,668

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 13).

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2016 and 2015, were as follows:

	2016	2015
Intragovernmental		
Accounts Receivable	\$ 3,954	\$ 3,954
Total Intragovernmental Accounts Receivable	\$ 3,954	\$ 3,954
With the Public		
Accounts Receivable	\$ 476	\$ 3,597
Total Public Accounts Receivable	\$ 476	\$ 3,597
Total Accounts Receivable	\$ 4,430	\$ 7,551

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, 2016 and 2015.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2016

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	\$ 1,963,761	\$ 1,819,142	\$ 144,619
Furniture & Equipment	960,763	248,863	711,900
Software	9,415,576	9,415,576	-
Total	\$ 12,340,100	\$ 11,483,581	\$ 856,519

Schedule of Property, Equipment, and Software as of September 30, 2015

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	\$ 1,940,054	\$ 1,730,723	\$ 209,331
Furniture & Equipment	908,997	152,937	756,060
Software	9,415,576	9,415,576	-
Total	\$ 12,264,627	\$ 11,299,236	\$ 965,391

NOTE 5. OTHER ASSETS

Other assets account balances as of September 30, 2016 and 2015, were as follows:

	2016	2015
Intragovernmental		
Advances and Prepayments	\$ 15,192	\$ 57,720
Total Intragovernmental Other Assets	\$ 15,192	\$ 57,720
Total Other Assets	\$ 15,192	\$ 57,720

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 MSPB as of September 30, 2016 and 2015, 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.

	2016	2015
Intragovernmental – FECA	\$ 91,311	\$ 92,409
Intragovernmental – Unemployment Insurance	-	7,988
Unfunded Leave	2,821,184	2,686,967
Actuarial FECA	467,129	491,954
Total Liabilities Not Covered by Budgetary Resources	\$ 3,379,624	\$ 3,279,318
Total Liabilities Covered by Budgetary Resources	1,968,185	1,667,901
Total Liabilities	\$ 5,347,809	\$ 4,947,219

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on 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 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, 2016 and 2015, was \$467,129 and \$491,954, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2016 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 9,963	\$ 81,348	\$ 91,311
Payroll Taxes Payable	269,105	-	269,105
Total Intragovernmental Other Liabilities	\$ 279,068	\$ 81,348	\$ 360,416
With the Public			
Payroll Taxes Payable	\$ 40,878	\$ -	\$ 40,878
Accrued Funded Payroll and Leave	1,060,914	-	1,060,914
Unfunded Leave	2,821,184	-	2,821,184
Other Liability	2,942	-	2,942
Total Public Other Liabilities	\$ 3,925,918	\$ -	\$ 3,925,918

Other liabilities account balances as of September 30, 2015 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 11,007	\$ 81,402	\$ 92,409
Unemployment Insurance Liability	7,988	-	7,988
Payroll Taxes Payable	202,362	-	202,362
Total Intragovernmental Other Liabilities	\$ 221,357	\$ 81,402	\$ 302,759
With the Public			
Payroll Taxes Payable	\$ 32,312	\$ -	\$ 32,312
Accrued Funded Payroll and Leave	825,307	-	825,307
Unfunded Leave	2,686,967	-	2,686,967
Employee Indebtedness	1,142	-	1,142
Total Public Other Liabilities	\$ 3,545,728	\$ -	\$ 3,545,728

NOTE 9. LEASES

Operating Leases

The MSPB occupies office space at various locations nationwide (Atlanta, Chicago, Dallas, Denver, New York, Philadelphia, San Francisco, and in Washington DC at two locations). The lease agreement is with the General Services Administration (GSA) and is accounted for as an operating lease. This lease agreement covers all locations that the MSPB occupies. The lease term began on May 1, 2013 and expires on April 30, 2023. Below is a schedule of future payments for the term of the lease.

The MSPB occupies a warehouse space at one location with a lease agreement accounted for as an operating lease. The (Washington, DC warehouse) lease began on October 1, 2014 and will expire on September 30, 2019. The agency currently pays annual rent of \$37,956.

Fiscal Year	Office Space
2017	\$ 3,000,417
2018	2,783,442
2019	2,693,973
2020	1,547,807
2021	393,352
Thereafter	443,712
Total Future Payments	\$ 10,862,703

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 10. 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:

	2016	2015
Adjudication		
Intragovernmental Costs	\$ 12,894,404	\$ 12,783,999
Public Costs	26,995,952	26,918,076
Total Program Costs	39,890,356	39,702,075
Intragovernmental Earned Revenue	-	(1,087)
Public Earned Revenue	-	2,761
Net Program Costs	\$ 39,890,356	\$ 39,703,749
Management Support		
Intragovernmental Costs	\$ 1,411,873	\$ 1,316,904
Public Costs	3,499,171	3,225,253
Total Net Cost	\$ 4,911,044	\$ 4,542,157
Merit Systems Studies		
Intragovernmental Costs	\$ 430,691	\$ 386,489
Public Costs	2,118,774	1,837,331
Net Program Costs	\$ 2,549,465	\$ 2,223,820
Total Intragovernmental costs	\$ 14,736,968	\$ 14,487,392
Total Public costs	32,613,897	31,980,660
Total Costs	47,350,865	46,468,052
Total Intragovernmental Earned Revenue	-	(1,087)
Total Public Earned Revenue	-	2,761
Total Net Cost	\$ 47,350,865	\$ 46,469,726

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2016 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2017 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2017 Budget of the United States Government, with the "Actual" column completed for 2015, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2016 and 2015 consisted of the following:

	2016	2015
Direct Obligations, Category A	\$ 43,076,905	\$ 43,517,247
Reimbursable Obligations, Category A	2,345,000	2,346,087
Total Obligations Incurred	\$ 45,421,905	\$ 45,863,334

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 13. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2016 and 2015, budgetary resources obligated for undelivered orders amounted to \$3,234,407 and \$3,761,430, respectively.

NOTE 14. CUSTODIAL ACTIVITY

The MSPB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are neither primary to the mission of the MSPB nor material to the overall financial statements. The MSPB's total custodial collections are \$0 and \$164 for the years ended September 30, 2016 and 2015, 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.

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 45,421,905	\$ 45,863,334
Spending Authority From Offsetting Collections and Recoveries	(3,172,645)	(2,751,723)
Net Obligations	42,249,260	43,111,611
Other Resources		
Imputed Financing From Costs Absorbed By Others	2,017,283	1,929,814
Net Other Resources Used to Finance Activities	2,017,283	1,929,814
Total Resources Used to Finance Activities	44,266,543	45,041,425
Resources Used to Finance Items Not Part of the Net Cost of Operations	2,765,759	1,330,015
Total Resources Used to Finance the Net Cost of Operations	47,032,302	46,371,440
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
	318,563	98,286
Net Cost of Operations	\$ 47,350,865	\$ 46,469,726