Federal Mediation and Conciliation Service (FMCS)
Fiscal Year 2019 Financial Statement Audit

Final Independent Auditors’ Report

Submitted for review and acceptance to:
Terry Lee
Contracting Officer's Representative (COR)
Federal Mediation and Conciliation Service
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Submitted by:
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Final Independent Auditors’ Report
Prepared under contract to the Federal Mediation and Conciliation Service (FMCS) to provide financial auditing services

FEDERAL MEDIATION AND CONCILIATION SERVICE
AUDIT REPORT
SEPTEMBER 30, 2019

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FEDERAL MEDIATION AND CONCILIATION SERVICE

November 15, 2019

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Independent Auditors' Report

The Director
Federal Mediation and Conciliation Service:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Mediation and Conciliation Service, which comprise the balance sheets as of September 30, 2019 and 2018; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years ended; and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility 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 the fiscal years 2019 and 2018 financial statements of FMCS based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Mediation and Conciliation Service as of September 30, 2019 and 2018, and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The information in the *Management and Discussion Analysis* section, and *Other Accompanying Information* section of this report is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 FMCS's financial statements. However, we did not audit this information and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of FMCS's financial statements as of and for the year ended September 30, 2019, in accordance with generally accepted government auditing standards, we considered FMCS's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FMCS's internal control over financial reporting. Accordingly, we do not express an opinion on FMCS's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

Our consideration of internal control over financial reporting was for the limited purpose as described in the paragraph above and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FMCS's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Exhibit I Findings and Recommendations* to be material weaknesses (2019-01 and 2019-05).

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 the attention by those charged with governance.

Furthermore, we noted additional matters that we will report to FMCS management in a separate letter.

Compliance and Other Matters Specific to the Financial Statements

As part of obtaining reasonable assurance about whether FMCS's fiscal year 2019 financial statements are free of material misstatements, we performed tests of FMCS's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, which noncompliance could have a direct and material effect on the determination of material amounts and disclosures in FMCS's financial statements, and certain provisions of other laws specified in OMB Bulletin No. 19-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance as described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 19-03.

FMCS's Response to Findings

FMCS's responses to the findings identified during our audit are presented in Exhibit I. FMCS's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication provided in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of the FMCS's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal controls and compliance with laws, regulations, contracts, and grant agreements which could have a material effect FMCS's financial statements. Accordingly, this communication is not suitable for any other purpose.

Allmond & Company, LLC

Lanham, MD
November 15, 2019

Lack of Sufficient Internal Controls over Financial Reporting for Upward and Downward Adjustments of Prior Year Obligations (2019-01)

<u>CONDITION:</u>

FMCS's internal controls over financial reporting lack sufficient internal controls to ensure the reliability of its Upward and Downward Adjustments of Prior Year Obligations. Specifically, we noted that the recorded Upward Adjustments and Downward Adjustments of Prior year Obligations was not properly supported by sufficient and appropriate documentation. Specifically, we noted the following:

- An unsupported transaction of $899,098 was recorded to USSGL account 487100 and account 488100 due to a change from governmental to non-governmental attribute on obligations in the general ledger.

- One instance where a downward adjustment of prior year obligation was recorded and reduced the entire obligation amount as opposed to the difference between the original obligation and the actual award payment of $242,163.

<u>CRITERIA:</u>

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states on page 54,

> "Transactions are 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Office of Management and Budget (OMB), OMB Circular A-11, "Preparation, Submission and Execution of the Budget, (issued June 28, 2019), Section 130 SF-133, Report on Budget Execution and Budgetary Resources, Part 12 "How Do I Report Adjustments to Expired TAFS" states on page 11,

> "Downward Adjustments: Place downward adjustments of unpaid obligations previously incurred on line 1021, "Unobligated Balance: Recoveries of prior year unpaid obligations." The amount should be included as a positive number because it increases the expired resources available only for future adjustments."

<u>CAUSE:</u>

The system is not properly configured to reclassify governmental and non-governmental attributes without recording transactions to account 487100 and 488100.

FMCS does not have a policy or procedure in place to review the validity of upward and downward adjusts recorded to the financial system.

EFFECT:

The lack of financial reporting internal controls can lead to potential misstatements to the financial statements or line items not being properly classified in accordance with generally accepted accounting principles.

RECOMMENDATION:

We recommend that FMCS management enhances current review process, to ensure all transactions are recorded completely, accurately and in compliance with the USSGL.

We further recommend that FMCS implement a policy and procedure to identify on a quarterly basis upward adjustments and downward adjustments that should not be recorded to the general ledger so that adjustments can be recorded to properly state ending balances.

MANAGEMENT RESPONSE:

As the Director of Finance, I am responding on behalf of senior management. Management concurs with the findings and recommendations suggested by Allmond and Company.

We will ensure the following:

1. FMCS management has enhanced current review process, to ensure all transactions are recorded completely, accurately and in compliance with the USSGL.

2. FMCS will implement a policy and procedure to identify on a quarterly basis upward adjustments and downward adjustments that should not be recorded to the general ledger so that adjustments can be recorded to properly state ending balances.

Internal Controls over Journal Vouchers are not properly Designed and Implemented (2019-05)

CONDITION:

FMCS's internal controls over journal vouchers are not properly designed and implemented. Specifically, during our review of journal vouchers transactions, we noted that FMCS incorrectly recorded unobligated no-year funds in USSGL account 451000 as opposed to USSGL account 445000 creating an abnormal balance in account 451000 in the amount of $638,441.

CRITERIA:

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design Control Activities, 10.03, Accurate and Timely Recording of Transactions, states,

> "Transactions are 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

CAUSE:

GLOWS is not configured to record unobligated balances in no year funds to Unapportioned authority at the end of the fiscal year.

FMCS was unaware of the required entry in order to remove the unobligated balance in no year funds to the correct USSGL account.

EFFECT:

The lack of properly designed and implemented internal controls over journal vouchers can lead to potential misstatements to the financial statements or line items not being properly classified in accordance with generally accepted accounting principles.

RECOMMENDATION:

We recommend that FMCS management:

1. Design and implement policies and procedures to verify that the correct entries are recorded in GLOWS.

2. Provide additional training on the USSGL guidance for properly recording transactions.

MANAGEMENT RESPONSE:

As the Director of Finance, I am responding on behalf of senior management. Management concurs with the findings and recommendations suggested by Allmond and Company.

We will ensure the following:

1. FMCS has implemented internal controls for reconciliations and reviews for abnormal balances on a monthly basis, to ensure proper recording of transactions. These reviews help to identify any abnormal balances, which allowed FMCS to confirm and make the proper correcting entry in the current year and fiscal year. FMCS has also transitioned to a shared service provider for fiscal year 2020 and going forward, with capabilities beyond that of the previously mentioned GLOWS system.

2. FMCS will continue to provide additional training on the USSGL guidance for properly recording transactions.

The following table provides the fiscal year (FY) 2019 status of all recommendations included in the Independent Auditors' Report on the FY 2019 Financial Statement Audit's FY 2018 Financial Statements (November 15, 2018).

FY 2018 Finding	FY 2018 Recommendations	FY 2019 Status
Internal Controls over Preparing Financial Statements and Footnote Disclosures are not Adequately Designed and Implemented (2018-04)	**Recommendation:** 1. Ensure the updated OMB Circular A-136 is utilized when preparing the financial statements and footnote disclosures. 2. Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency trial balance. 3. Design and implement policies and procedures to have someone other than the preparer review the financial statements and note disclosures for completeness, accuracy, and compliance with financial reporting requirements. The review process should also utilize checklist that describes key items and expectations regarding the presentation of the financial statements and footnote disclosures.	Closed
Internal Controls over Journal Vouchers are Not Properly Designed and Implemented (2018-05)	**Recommendation:** 1. Design and implement policies and procedures to record the use of appropriations in GLOWS when expenses are incurred. 2. Design and implement policies and procedure to separate and document the duties of the preparer and the reviewer of journal vouchers recorded in GLOWS. 3. Design and implement policies and procedures to verify that the correct entries are recorded in GLOWS. 4. Provide additional training on the USSGL guidance for properly recording transactions.	1. Closed 2. Closed 3. Open 4. Open

Federal Mediation and Conciliation Service

Fiscal Year 2019
Financial Statements

FEDERAL MEDIATION AND CONCILIATION SERVICE
BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	12,177,071	$	14,121,789
Accounts Receivable (Note 3)		18,574		27,781
Total Intragovernmental Assets		12,195,645		14,149,570
Property, Equipment, and Software, Net (Note 4)		309,212		493,831
Total Assets	$	12,504,857	$	14,643,401
Liabilities:				
Intragovernmental				
Employer Contributions and Payroll Taxes Payable		316,187		273,884
Unfunded FECA (Note 5)		336,135		330,950
Total Intragovernmental Liabilities	$	652,322	$	604,834
Accounts Payable	$	173,225	$	985,436
Accrued Payroll and Benefits		1,161,296		1,025,641
Actuarial FECA (Note 5)		1,752,946		1,747,212
Unfunded Annual Leave (Note 5)		2,513,606		2,281,112
Total Liabilities	$	6,253,395	$	6,644,235
Net Position:				
Unexpended Appropriations - Other Funds	$	7,635,205	$	8,893,986
Cumulative Results of Operations - Other Funds		(1,383,743)		(894,820)
Total Net Position		6,251,462		7,999,166
Total Liabilities and Net Position	$	12,504,857	$	14,643,401

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

	2019	2018
Total Gross Program Costs	$ 52,114,505	$ 50,029,586
Less: Total Earned Revenues	2,341,178	2,128,569
Net Cost of Operations	**$ 49,773,327**	**$ 47,901,017**

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		FY 2019		FY 2018
Unexpended Appropriations				
Beginning balances		8,893,986		8,156,658
Beginning balances - adjustment		-		516,789
Beginning balances, as adjusted		8,893,986		8,673,447
Budgetary Financing Sources:				
Appropriations received		46,650,000		46,650,000
Other adjustments		(709,985)		(421,005)
Appropriation used		(47,198,796)		(46,008,456)
Total Budgetary Financing Sources		(1,258,781)		220,539
Total Unexpended Appropriation		7,635,205		8,893,986
Cumulative Results of Operations:				
Beginning balances	$	(894,820)	$	(436,034)
Beginning balances - adjustment	$	(545)	$	(516,789)
Beginning balances, as adjusted	$	(895,365)	$	(952,823)
Budgetary Financing Sources:				
Appropriations used		47,198,796		46,008,456
Other Financing Sources				
Imputed financing (Note 9)		2,086,153		1,950,564
Total Financing Sources		49,284,949		47,959,020
Net Cost of Operations		(49,773,327)		(47,901,017)
Net Change		(488,378)		58,003
Cumulative Results of Operation		**(1,383,742)**		**(894,820)**
Net Position	**$**	**6,251,462**	**$**	**7,999,166**

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Budgetary Resources:				
Unobligated balance from prior year budget authority, net		6,220,935		6,851,310
Appropriations (discretionary and mandatory)		46,650,000		46,650,000
Spending authority (discretionary and mandatory)		2,342,206		2,128,569
Total Budgetary Resources	**$**	**55,213,141**	**$**	**55,629,879**
Status of Budgetary Resources:				
New obligations and upward adjustments (Note 6)	$	48,193,226	$	49,512,002
Unobligated balance, end of year:				
Apportioned, unexpired accounts		2,330,346		2,037,768
Unapportioned, unexpired accounts		1,572,655		1,138,052
Expired unobligated balance, end of year		3,116,914		2,942,057
Unobligated balance, end of year (total)		7,019,915		6,117,877
Total Status Budgetary Resources	**$**	**55,213,141**	**$**	**55,629,879**
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)		47,883,770		45,832,075
Agency outlays, net (discretionary and mandatory)	**$**	**47,883,770**	**$**	**45,832,075**

FEDERAL MEDIATION AND CONCILIATION SERVICE
Notes to the Financial Statements
As of September 30, 2019 and September 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a.) Reporting Entity

FMCS is an independent Federal agency whose primary mission is to prevent or minimize labor-management disputes affecting interstate commerce by providing mediation, conciliation, and voluntary arbitration. These activities are performed in both the private and public sectors, except for the railroad and airline industries, which are covered by the Railway Labor Act and the National Mediation Board, respectively.

At September 30, 2019, FMCS consisted of a national office, 10 regional offices, and 12 field offices.

A summary of significant accounting policies utilized in the preparation of the financial statements is as follows:

b.) Basis of Presentation

These financial statements have been prepared from the books and records of FMCS to report the financial position and results of operations of the Federal Mediation and Conciliation Service (FMCS) as required by the Accountability Tax Dollars Act of 2002, Public Law 107-289 in accordance with accounting principles generally accepted in the United States (GAAP), and the form and content for entity's financial statements specified by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. GAAP for federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the federal government by the American Institute of Certified Public Accountants (AICPA).

OMB Circular No. A-136 requires agencies to prepare basic financial statements, which include a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and a Statement of Budgetary Resources. The Balance Sheets present, as of September 30, 2019 and 2018, amounts of future economic benefits owned or managed by the FMCS (assets), amounts owed by the FMCS (liabilities) and amounts which comprise the difference (net position). The Statements of Net Cost report the full cost of the Agency's program, both direct and indirect costs of the output, and the costs of the identifiable supporting services provided by other segments within the FMCS. The statement of Budgetary Resources reports the FMCS's budgetary activity.

Transactions are recorded on the accrual and budgetary basis of accounting. According to the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when resources are consumed, without regard to the payment of cash. Budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of accrual based transactions. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

Net Position, shown on the Balance Sheet, is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations included the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Cumulative results of operations are the net results of operations since inception plus the cumulative amount of prior-period adjustments. This includes the cumulative amount of donations and transfers of assets in and out without reimbursement.

c.) Dedicated Collections

FMCS has no funds from dedicated collections as described by the Statement of Federal Financial Accounting Standards (SFFAS) 43.

d.) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

e.) Funds Balances with U.S. Department of the Treasury and Cash

FMCS maintains its available funds with the Department of the Treasury (Treasury). The funds balance with Treasury is available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by Treasury and reconciled with those of Treasury on a regular basis.

f.) Accounts Receivable

Accounts receivable consist of the amounts owed to FMCS as the result of the provision of goods and services. Intra-governmental accounts receivable generally arises from the provision of reimbursable services to other federal agencies and no allowance for uncollectible accounts is established as those accounts are considered to be fully collectible.

g.) General Property and Equipment

General property and equipment (P&E) consists of software and equipment used for operations. The basis for recording purchased P&E is acquisition cost, which includes all costs incurred to bring the P&E to its intended use. All P&E with initial acquisition cost of $5,000 or more and estimated useful lives of two years or more are capitalized except for internal use software discussed below.

The P&E is depreciated using the straight-line method over the estimated useful lives of assets. Maintenance and repair costs are expensed as incurred.

h.) Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by FMCS as a result of a transaction or event that has already occurred. Since FMCS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation providing resources to do so. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that corresponding future appropriations will be enacted. Liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity. Since liabilities are only those items that are present obligations of the government. The FMCS's liabilities are classified as covered by budgetary resources or not covered by budgetary resources.

i.) Accounts Payable

Accounts payable primarily consist of amounts due for goods and services received, progress on contract performance, interest due on accounts payable and other miscellaneous payables.

j.) Accrued Payroll and Benefits

Accrued payroll and benefits consist of salaries, wages, leave and benefits earned but not taken or disbursed as of year-end. Annual and compensatory leave is expended with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken; funding will be obtained from future financing resources. Sick leave and other types of non-vested leave are expended as taken.

k.) Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 USC 3901-3907, Federal agencies must pay interest on payments for goods and services made to business concerns after the due date. The due date is generally 30 days after receipts of a proper invoice or acceptance of the goods or services and 15 days for Small Businesses.

l.) Federal Employee Benefits

With a few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees first hired after December 31, 1983, are covered by the Federal Employees Retirement System (FERS). Employees hired on or after January 1, 2013, are covered by the FERS-RAE (Revised Annuity Employee). Those hired on or after January 1, 2014 are covered under FERS-FRAE (Further Revised Annuity Employee).

For employees covered under CSRS, the FMCS withholds 7.0% of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have FICA withholdings and, thus do not accrue Social Security benefits. However, 1.45% for Medicare is withheld and matched.

Employees covered under CSRS Offset have 0.8% of their basic pay withheld from their salaries biweekly. FMCS contributes 7% of their basic salaries to CSRS and 7.65% (6.2% OASDI + 1.45% Medicare) of their gross pay to Social Security biweekly. If an employee reaches the annual Social Security wages maximum and withholding stop for OASDI tax, the CSRS withholding increases to 7% (0.8% + 6.2%).

For employees covered under FERS, in addition to FICA withholdings, FMCS withholds approximately 0.8% from employees' basic earnings for a retirement annuity. FMCS makes contributions to the plan at an established rate by OPM which was 13.7% for 2019 and 2018. Under FERS, employees also receive retirement benefits from Social Security and benefits from a defined contribution plan called Thrift Savings Plan. Under the thrift plan, an employee may contribute up to the annual IRS limit to a tax deferred investment fund. FMCS contributes 1% of salary for FERS employees, whether or not they contribute their own money to the Thrift Savings Plan. For FERS employees who do contribute their own money to the Thrift Savings Plan, FMCS matches the amount dollar-for-dollar on the first 3% and 0.50 cents on the dollar for each of the next 2%. The combined automatic and matching portion of FMCS' contribution cannot exceed 5% of salary. Those employees who elected to remain under CSRS after December 31, 1983 and those covered by CSRS offset, continue to receive benefits in place, and may also contribute (tax deferred) up to the annual IRS limit to the thrift plan, but with no matching amount contributed by FMCS. CSRS, CSRS Offset and FERS employees are eligible to contribute an additional tax deferred amount to TSP for a "TSP Catch-Up" if they are over age 50 and have contributed the maximum in "regular" TSP deductions during the tax year. There is no match on the catch-up contributions.

For employees covered under FERS-RAE, in addition to FICA withholdings, FMCS withholds 3.1% from employees' basic earnings for a retirement annuity. For employees covered under FERS-FRAE, in addition to FICA withholdings, FMCS withholds 4.4% from employee's basic earnings for a retirement annuity. FMCS contributions to the plan at an established rate by OPM were 11.9% for 2019 and 2018.

The U.S. Office of Personnel and Management administers these benefit plans and, thus, report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities applicable to federal employees. Therefore, the FMCS financial statements do not recognize any liability on its balance sheets for pension, other retirement benefits and other post-employment benefits.

m.) Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides wage loss benefits, medical benefits, and vocational rehabilitation to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and survivor benefits to eligible dependents of injured workers whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FMCS employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by FMCS. The future workers' compensation liability has two components, (1) unpaid billings, and (2) an amount of estimated unbilled claims. The unbilled claims are estimated by applying actuarial procedures. The DOL calculated the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation costs. The liability was determined using the paid-losses extrapolation method patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by agency.

In accordance with Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers Act and the Government Management Reform Act should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statement, if such amounts are material. The FECA actuarial data is for financial statement presentation only and should not be used as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to FMCS.

n.) Comparative Data

Comparative data for the prior year have been presented in order to provide an understanding of changes in the financial position and operations of FMCS.

o.) Revenues and other Financing Sources

FMCS receives the majority of the funding needed to support its operations through appropriations. The Agency receives annual appropriations that may be used, within statutory limits, for operating expenditures. Additional amounts are obtained from fees reimbursed for alternative dispute resolution and arbitration services provided to the federal, public and private sectors.

Appropriations are recognized as other financing sources when used and fees for services are recognized as revenues at the time they are earned and the related program or administrative expenses are incurred. Appropriations accrued for property and equipment are recognized as expenses when the asset is consumed in operations.

p.) Contingencies and commitments

FMCS leases various facilities accounted for as operating leases. Assets held under these leases consist primarily of offices and parking facilities. All of the space occupied by FMCS is leased by the General Services Administration (GSA). The space is assigned to FMCS by GSA based on FMCS' square footage requirements. The rent charged by GSA is based on approximate commercial rates for commercial space and actual rates for private buildings. FMCS may terminate the leases with GSA; however, it is anticipated that FMCS will continue to occupy and lease space from GSA in future years.

q.) Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

NOTE 2: FUND BALANCE WITH THE U.S. TREASURY

The Fund Balance with the U.S. Treasury as reported in the financial statements represents the unexpended cash balance on the FMCS books for all FMCS Treasury Symbols. The balances were comprised of the following at September 30:

Status of Fund Balance with Treasury

	2019	**2018**
Unobligated Balance		
Available	$2,330,346	$2,039,759
Unavailable	4,689,569	4,080,109
Obligated Balance not yet Disbursed	5,157,156	8,001,921
Total	$12,177,071	$14,121,789

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from federal government departments and other agencies. Since these receivable are from other government agencies, management believes these receivables are fully collectable.

The receivable balance consisted of the following at September 30:

	2019	**2018**
Account Receivable (Gov)	$18,574	$27,781
Account Receivable (Non-gov)	0	0
Total Account Receivable	$18,574	$27,781

NOTE 4: GENERAL PROPERTY AND EQUIPMENT

Property and equipment owned by FMCS are all classified as equipment and consisted of the following at September 30:

	2019	**2018**
Equipment, Furniture, Hardware	$2,994,650	$3,022,702
ADP Software	22,377	22,377
Total	$3,017,027	$3,045,079
Less: Accumulated depreciation		
On Equipment, Furniture	$(2,685,438)	$(2,528,871)
Less: Amortization on ADP software	(22,377)	(22,377)
Net Book Value	$309,212	$493,831

NOTE 5: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided.

Unfunded Employee Liabilities consists of workers' compensation claims payable to the Department of Labor, which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from the DOL. The actuarial calculation is based on benefit payments made over 12 quarters, and calculates the annual average of payments. For medical expenses and compensation, this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

Unfunded Leave represents a liability for earned leave and is reduced when leave is taken. At year end, the balance in the accrued leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources.

All other liabilities are considered to be covered by budgetary resources.

FMCS future funding requirements were comprised of the following at September 30:

	2019	2018
Intragovernmental:		
Unfunded FECA Liability	$336,135	$330,950
Total Intragovernmental	336,135	330,950
Unfunded Annual Leave	2,513,606	2,281,112
Actuarial FECA	1,752,946	1,747,212
Total Liabilities Not Covered by Budgetary Resources	4,602,687	4,359,274
Total Liabilities Covered by Budgetary Resources	1,650,708	2,284,961
Total Liabilities	$6,253,395	$6,644,235

NOTE 6: APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VS. REIMBURSABLE OBLIGATIONS

Direct vs. Reimbursable new obligations and upward adjustments had the following apportionment categories:

	2019	**2018**
Direct Obligations (Category A)	$47,061,000	$47,999,150
Reimbursable Obligations (Category A)	1,132,226	1,512,852
Total	$48,193,226	$49,512,002

NOTE 7: UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders at September 30, 2019 and September 30, 2018 are:

	2019	**2018**
Intragovernmental, Undelivered Orders Unpaid	$176,940	$1,147,876
Public, Undelivered Orders Unpaid	3,312,951	4,561,734
Total Undelivered Orders	$3,489,891	$5,709,610

NOTE 8: OPERATING LEASES

FMCS leases office space for headquarters operations in Washington, D.C. and for district and field operations. The lease agreements expire at various dates, the latest being 2034. Assets held under these leases consist of primarily of offices. All office space occupied by FMCS is leased by the General Services Administration (GSA).

Future estimated minimum lease payments for the fiscal years ended September 30 are supported by each GSA lease agreement and are as follows:

Schedule of Future Minimum Lease Payments	
FY 2020	4,274,348
FY 2021	4,316,636
FY 2022	4,312,613
FY 2023	4,070,745
FY 2024	4,067,203
FY 2025-2034 lump sum	24,495,995
Total Future Minimum Lease Payments	$45,537,541

Rent expense totaled $4,955,156 and $5,101,516 for fiscal years September 30, 2019 and 2018 respectively.

NOTE 9: INTER-ENTITY COSTS

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by FMCS are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements. The imputed financing amount represents the difference between the employer's total pension expense and the employer's contribution.

Imputed financing sources in 2019 and 2018 consist of the following:

	2019	**2018**
Office of Personnel Management	$ 2,086,153	$ 1,950,564
Total Imputed Financing Sources	$ 2,086,153	$ 1,950,564

NOTE 10: EXPLANATION OF THE DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES VS. BUDGET OF THE UNITED STATES GOVERNMENT

The Budget of the United States Government, with actual amounts for the year ended September 30, 2019, has not been published as of the issue date of these financial statements. A reconciliation of budgetary resources, obligations incurred and new outlays (in millions), as presented in the Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2018, is shown below.

The Federal Mediation and Conciliation Services Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget).

	Budgetary Resources	**New obligations and Upward adjustments**	**Net Outlays**
Statement of Budgetary Resources	55	50	46
Expired Funds	-3	0	0
Rounding	0	0	-1
Budget of the U.S. Government	52	50	45

The difference between the Statement of Budgetary Resources and the Budget of the U.S. Government is due to Expired Unobligated Balances being reported in the FY 2018 Budget of the United States Government but not in the Statement of Budgetary Resources.

NOTE 11: RECONCILIATION OF NET COST TO NET OUTLAYS

In the new FY 2019 period, agencies are required to report a Budget Accrual Reconciliation (BAR) in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 53. The BAR starts with the net cost of operations and adjusts activity by components of net cost that are not part of net outlays, components of net outlays that are not part of net cost, and other temporary timing differences or special adjustments. For the period ending September 30, 2019, the BAR is as follows:

	Intragov-ernmental	With the Public	Total FY 2019
Net Operating Cost (SNC)	**$13,476,985**	**$36,296,342**	**$ 49,773,327**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(261,198)	(261,198)
Property, plant, and equipment disposal & reevaluation	-	(24,723)	(24,723)
Increase/(decrease) in assets:			-
Accounts receivable	(9,207)	-	(9,207)
(Increase)/decrease in liabilities not affecting Budget Outlays:			-
Accounts payable	-	811,792	811,792
Salaries and benefits	(42,303)	(135,655)	(177,958)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(5,185)	(238,228)	(243,413)
Other financing sources			-
Federal employee retirement benefit costs paid by OPM and imputed to agency	(2,086,153)	-	(2,086,153)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (2,142,848)**	**$ 151,988**	**$ (1,990,860)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	101,303	101,303
Net Outlays (Calculated Total)	**$11,334,137**	**$36,549,633**	**$ 47,883,770**
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR 4210)			**47,883,770**
Agency Outlays, Net (SBR 4210)			**$ 47,883,770**