

## NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The National Science Foundation (NSF or “Foundation”) is an independent federal agency created by the National Science Foundation Act of 1950, as amended (42 U.S.C. 1861-75). Its mission is to promote and advance scientific progress in the United States. NSF initiates and supports scientific research and research fundamental to the engineering process and programs to strengthen the Nation’s science and engineering potential. NSF also supports education programs at all levels in all fields of science and engineering. NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions in all parts of the United States. NSF, by law, cannot operate research facilities except in the polar regions. By award, NSF enters into relationships to fund the research operations conducted by grantees.

NSF is led by a presidentially-appointed director and the policy-making National Science Board (NSB). The NSB, composed of 24 members, represents a cross section of American leaders in science and engineering research and education, who are appointed by the President for six-year terms. The NSF Director is a member *ex officio* of the Board.

NSF is authorized to accept and use U.S. and foreign funds into the NSF Donation Account per the General Authority of the Foundation as found in 42 U.S.C. 1862 Section 3 (a)(3), “to foster the interchange of scientific and engineering information among scientists and engineers in the United States and foreign countries, and also 42 U.S.C. 1870 Section 11 (f) which allows NSF to receive and use funds donated by others. Donations are received from foreign governments, private companies, academic institutions, non-profit foundations, and individuals. Donated funds are either earmarked for a specific NSF program or unrestricted, which can be used on one or more of the general purposes of the foundation. NSF maintains four interest bearing donation accounts. Interest earned on the bank deposits are used for the same purpose as the principal donations. When needed for program support, donations are transferred to the U.S. Treasury. Funds are made available for obligations as necessary to support NSF programs.

#### B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. While the statements have been prepared from the books and records of NSF in accordance with United States generally accepted accounting principles (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 fiscal year (FY) 2007 *Budget of the United States* (also known as the President’s Budget) with actual numbers for FY 2005 was not published at the time that these financial statements were issued. The President’s Budget is expected to be published in February 2006 and will be available from the United States Government Printing Office. There are no differences in the actual amounts for FY 2004 that have been reported in the FY 2006 Budget of the United States and the actual numbers that appear in the FY 2004 Statement of Budgetary Resources.

### C. Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting in addition to recognizing certain budgetary transactions. 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 constraints and controls over the use of federal funds. NSF records grant expenses from expenditure reports submitted by the grantees.

### D. Revenues and Other Financing Sources

NSF received the majority of its funding through appropriations contained in the Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act. NSF receives both annual and multi-year appropriations that may be expended, within statutory limits. Additional amounts are obtained from reimbursements for services provided to and allocation transfers from other federal agencies and from receipts to the donation account. Also, NSF receives interest earned on overdue receivables and excess cash advances to grantees. The interest earned on overdue receivables is returned to the Treasury. Interest earned on excess cash advances to grantees is sent directly to the Department of Health and Human Services in accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non Profit Organizations*.

Appropriations are recognized as a financing source at the time the related “funded” program or administrative expenses are incurred. Appropriations are also recognized when used to purchase property, plant and equipment. “Unfunded” liabilities result from liabilities not covered by budgetary resources and will be paid when future appropriations are made available for these purposes. Donations are recognized as revenues when funds are received. Revenues from reimbursable agreements are recognized when the services are provided and the related expenditures are incurred. Reimbursable agreements are mainly for grant administrative services provided by NSF on behalf of other federal agencies.

### E. Fund Balance with Treasury and Cash and Other Monetary Assets

Cash receipts and disbursements are processed by the Treasury. Fund Balance with Treasury is composed primarily of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Cash and Other Monetary Assets primarily include non-appropriated funding sources from donations, non-convertible Indian rupees and undeposited collections.

NSF has also established commercial bank accounts to hold some donated funds in trust, in interest bearing accounts as permitted by the contributors. These funds are collateralized by the bank through the U.S. Treasury.

### F. Accounts Receivable, Net

Accounts Receivable consists of amounts due from governmental agencies, private organizations, and individuals. NSF establishes an allowance for loss on accounts receivable from private sources that are deemed uncollectible, but regards amounts due from other federal agencies as fully collectible. In FY 2004, OMB issued M-04-10: *Memorandum on Debt Collection Improvement Act Requirements*, which reminded agencies of their responsibility to comply with the policies for writing off and closing out debt. Based on this memo, NSF writes off delinquent debt that is more than two years old. NSF also analyzes each account independently to assess collectability and the need for an offsetting allowance or write-off.

## G. Advances

Advances consist of advances to grantees, contractors, and federal agencies. Advance payments are made to grant recipients so that recipients may incur expenses related to the approved grant. Payments are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Total grant expenditures for the year include an estimate of fourth quarter amounts due from and payable to grantees. The estimate is compiled using historical grantee expenditure data. For those grantees with advance payments exceeding reported expenditures, the aggregate difference is treated as an advance. Additionally, for those grantees with expenditures exceeding advance payments, the aggregate difference is treated as a grant liability. Advances to contractors are payments made in advance of incurring expenses. Advances to federal agencies are only issued when agencies are operating under working capital funds and are unable to incur costs on a reimbursable basis. Advances are reduced when documentation supporting expenditures is received and recorded.

## H. General Property, Plant and Equipment (PP&E)

PP&E: NSF capitalizes acquisition costs exceeding \$25,000 and useful lives of two or more years. Acquisitions not meeting these criteria are recorded as operating expenses. NSF currently reports capitalized PP&E at original acquisition cost; assets acquired from General Services Administration's (GSA) excess property schedules are recorded at the value assigned by the donating agency; assets transferred in from other agencies are at the cost recorded by the transferring entity for the asset net of accumulated depreciation or amortization. Completed buildings are transferred from Construction in Progress to Real Property at NSF's acceptance. Depreciation expense is calculated using the straight-line method. The economic life classifications for capitalized assets are as follows:

### Equipment

- 5 years - computers and peripheral equipment, fuel storage tanks, laboratory equipment, and vehicles
- 7 years - communications equipment, office furniture and equipment, pumps and compressors
- 10 years - generators, Department of Defense equipment

### Aircraft and Satellites

- 7 years - aircraft, aircraft conversions, and satellites

### Buildings and Structures

- 31.5 years - buildings and structures placed in service prior to 1993
- 39 years - buildings and structures placed in service after 1993

### Internal Use Software

- 5 years - internal use software

### Leasehold Improvements

The economic life of Leasehold Improvements is amortized over the number of years remaining on the occupancy agreement for the NSF headquarters building. In FY 2005, Leasehold Improvements completed during the year were amortized over 8 years. This represents the remaining years on NSF's lease with GSA.

The PP&E balance consists of Equipment, Aircraft and Satellites, Buildings and Structures, Leasehold Improvements, and Construction in Progress. Costs are accumulated in construction in progress until the complete project is accepted by NSF and at that time, project costs are capitalized and depreciated over the respective useful life of the asset. These balances are comprised of PP&E maintained "in-house" by

NSF to support agency operations and PP&E under the U.S. Antarctic Program (USAP). The majority of USAP property is currently the custodial responsibility of Raytheon Technical Services Company, the NSF contractor for the program. Additionally, the U.S. Navy's Space and Naval Warfare Center, the Air National Guard 109<sup>th</sup>, and Ken Borek Air also have custodial responsibility for some USAP property.

Office Space: The NSF headquarters buildings are leased through the GSA under an occupancy agreement. The cancellation clause within the agreement allows NSF to terminate use with a 120 day notice. NSF is billed by GSA for the leased space as rent based upon estimated lease payments made by GSA plus an administrative fee. The cost of the headquarters building is not capitalized by NSF. The cost of leasehold improvements performed by GSA is financed with NSF appropriated funds. The leasehold improvements are capitalized by NSF as they are transferred from Construction in Progress. Amortization is calculated using the straight-line method over the lesser of their useful lives or the unexpired lease term.

Internal Use Software: NSF controls, values and reports purchased or developed software as tangible property assets, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10 – "Accounting for Internal Use Software." NSF identifies software investments as accountable property for items that, in the aggregate, cost \$500,000 or more to purchase, develop, enhance or modify a new or existing NSF system. Software projects that are not completed at year-end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight-line method.

Assets Owned by NSF in the Custody of Other Entities: NSF awards grants, cooperative agreements, and contracts to various organizations, including colleges and universities, non-profit organizations, state and local governments, Federally Funded Research and Development Centers (FFRDC), and private entities. The funds provided may be used in certain cases to purchase or construct Property, Plant and Equipment (PP&E) to be used for operations or research on projects or programs sponsored by NSF. In these instances, NSF funds the acquisition of property, but transfers control to these entities. NSF's authorizing legislation specifically prohibits it from operating such property directly. In practice, NSF's ownership interest in such PP&E is similar to a reversionary interest. To address the accounting and reporting of these assets, specific guidance was sought by NSF and provided by the Federal Accounting Standards Advisory Board (FASAB). This guidance stipulated that NSF should: (i) disclose the value of such PP&E held by others in its financial statements based on information contained in the audited financial statements of these entities (if available). Where separate audited amounts are not available for a specific entity, NSF should name the entity and note that these amounts are unavailable; and (ii) report information on costs incurred to acquire the research facilities, equipment, and platforms in the Research and Human Capital Activity costs as required by the Statement of Federal Financial Accounting Standards No. 8, *Supplementary Stewardship Reporting*.

#### I. Advances from Others

Advances from Others consist of prior year amounts obligated and advanced by other federal entities to NSF for grant administration and other services to be furnished under reimbursable agreements. Balances at the end of the year are adjusted by an allocated amount from the fourth quarter grantee expenditure estimate described under Note 1G, *Advances*. The amount to be allocated is based on a percentage of reimbursable grant expenditures, by trading partner, to total grant expenditures.

#### J. Accounts Payable

Accounts Payable consists of liabilities to commercial vendors, contractors, and disbursements in transit. Accounts payable to commercial vendors are expenses for goods and services received but not yet paid by NSF at the end of the fiscal year. At year-end, NSF accrues for the amount of estimated unpaid expenses

to commercial vendors. Contract liabilities are estimated expenses over and above the amount of advances given to contractors. At year-end, NSF accrues the amount of estimated expenses not covered by advances given to contractors. Intra-governmental accounts payable consists of disbursements in transit recorded by NSF but not paid by Treasury.

#### **K. Other Liabilities**

Other liabilities consist of grant accruals, accrued payroll and benefits. Grant liabilities are estimated grantee expenses over and above the amount of advances given to grantees. At year-end, NSF accrues for the amount of estimated grantee expenses not covered by advances given to grantees. Accrued payroll and benefits relate to services rendered by NSF employees but not yet paid. At year-end, NSF accrues the actual amount of wages and benefits earned, but not yet paid. In FY 2004, NSF outsourced its payroll services to the Department of the Interior.

#### **L. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect changes. To the extent current and prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future Salaries and Expenses appropriations. Sick leave and other types of nonvested leave are expensed as taken.

#### **M. Employee Benefits**

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability consists of the net present value of estimated future payments calculated by the U.S. Department of Labor (DOL) and the actual unreimbursed cost paid by DOL for compensation paid to recipients under FECA. The actual costs incurred are reflected as a liability because NSF will reimburse DOL two years after the actual payment of expenses. Future NSF Salaries and Expenses Appropriations will be used for DOL's estimated reimbursement.

#### **N. Net Position**

Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations is the net result of NSF's operations since inception.

#### **O. Retirement Plan**

In FY 2005, approximately 28 percent of NSF employees participated in the Civil Service Retirement System (CSRS), to which NSF made matching contributions equal to 7 percent of pay. The majority of NSF employees are covered by the Federal Employees Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a thrift savings plan to which NSF automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent of pay. NSF also contributes the employer's matching share for Social Security for FERS participants.

Although NSF funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, the agency has no liability for future payments to employees under these plans, nor does NSF report CSRS, FERS, or Social Security assets, or accumulated plan benefits, on its financial statements. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM) and The Federal Retirement Thrift Investment Board. In FY 2005, NSF's

contributions to CSRS and FERS were \$2,333,414 and \$8,858,629 respectively. In FY 2004, NSF's contributions to CSRS and FERS were \$2,363,364 and \$7,862,417 respectively.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their 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 provide these factors to the agency for current period expense reporting. Information was also provided by OPM regarding the full cost of health and life insurance benefits.

In FY 2005, NSF, utilizing OPM provided cost factors, recognized \$3,562,579 of pension expenses, \$5,417,815 of post-retirement health benefits expenses, and \$21,664 of post-retirement life insurance expenses, beyond amounts actually paid. NSF recognized offsetting revenue of \$9,002,058 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

In FY 2004, NSF, utilizing OPM provided cost factors, recognized \$3,942,925 of pension expenses, \$4,587,960 of post-retirement health benefits expenses, and \$21,285 of post-retirement life insurance expenses, beyond amounts actually paid. NSF recognized offsetting revenue of \$8,552,170 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

#### P. Commitments, Contingencies, and Possible Future Costs

Commitments: Commitments are contractual agreements involving financial obligations. NSF is committed for goods and services that have been ordered, but have not yet been delivered.

Contingencies - Claims and Lawsuits: NSF is a party to various legal actions and claims brought against it. In the opinion of NSF management and legal counsel, the ultimate resolution of the actions and claims will not materially affect the financial position or operations of the Foundation. NSF recognizes the contingency in the financial statements when claims are expected to result in a material loss, whether from NSF's appropriations or the "Judgment Fund" administered by the Department of Justice under Section 1304 of Title 31 of the United States Code, and, the payment amounts can be reasonably estimated.

Claims and lawsuits have also been made and filed against awardees of the Foundation by third parties. NSF is not a party to these actions and NSF believes there is no possibility that NSF will be legally required to satisfy such claims. Judgments or settlements of the claims against awardees that impose financial obligation on them may be claimed as costs under the applicable contract, grant, or cooperative agreement and thus may affect the allocation of program funds in future fiscal years. In the event that the likelihood of loss on such claims by awardees becomes probable, these amounts can be reasonably estimated and NSF management determines that it will probably pay them, NSF will recognize these potential payments as expenses.

Contingencies – Unasserted Claims: For claims and lawsuits that have not been made and filed against the Foundation, NSF management and legal counsel determine, in their opinion, whether resolution of the actions and claims it is aware of will materially affect the agency's financial position or operations. NSF recognizes a contingency in the financial statements when unasserted claims are probable of assertion, and if asserted would be probable of an unfavorable outcome, and expected to result in a measurable loss, whether from NSF's appropriations or the "Judgment Fund." NSF discloses unasserted claims if materiality or measurability of a potential loss cannot be determined or the loss is more likely than not to occur rather than probable.

**Termination Claims:** NSF engages organizations in cooperative agreements and contracts to manage, operate and maintain research facilities for the benefit of the scientific community. As part of these agreements and contracts, NSF funds on a pay-as-you-go basis certain employee benefit costs, (accrued vacation and other employee related liabilities, severance pay and medical insurance), long term leases and vessel usage. These agreements permit awardees to make claims for any unpaid costs upon termination or non-renewal of the agreements and contracts.

NSF considers the likelihood of termination or non-renewal to be remote, and has not recorded liabilities for these termination claims on its financial statements. However, one FFRDC operator has identified these payments as obligations of NSF. The termination provision of the cooperative agreement clearly states that NSF's liability for such costs exists only upon termination and is limited to the lesser of available appropriations or \$25 million. NSF, at the discretion of its Director, has offered to use its best efforts to obtain these additional funds, including efforts to obtain such funds from Congress. However, nothing in the agreements or contracts can be construed as implying that Congress will appropriate funds to meet the terms of these claims.

**Environmental Liabilities:** NSF manages the U.S. Antarctic Program. The Antarctic Conservation Act and its implementing regulations identify the requirements for environmental clean-up in Antarctica. NSF continually monitors the U.S. Antarctic Program in regards to environmental issues. NSF establishes its environmental liability estimates in accordance with the requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," and as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," and the Federal Financial Accounting and Auditing Technical Release No. 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government."

**Q. Use of Estimates**

The preparation of the accompanying financial statements requires management to make certain estimates and assumptions. Actual results will invariably differ from those estimates.

**R. Tax Status**

NSF, as a federal agency, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded.

**Note 2. Fund Balance with Treasury**

Fund Balance with Treasury consisted of the following components as of September 30, 2005 and 2004:

(Amounts in Thousands)	2005			
	Appropriated Funds	Donated Funds	Special Funds	Total
Obligated	\$ 7,279,716	20,678	130,117	\$ 7,430,511
Unobligated Available	54,064	14,495	86,972	155,531
Unobligated Unavailable	85,324	213	2,606	88,143
<b>Total Fund Balance with Treasury</b>	<b>\$ 7,419,104</b>	<b>35,386</b>	<b>219,695</b>	<b>\$ 7,674,185</b>

(Amounts in Thousands)	2004			
	Appropriated Funds	Donated Funds	Special Funds	Total
Obligated	\$ 7,204,385	9,979	149,944	\$ 7,364,308
Unobligated Available	45,802	13,276	26,152	85,230
Unobligated Unavailable	90,601	364	2,949	93,914
<b>Total Fund Balance with Treasury</b>	<b>\$ 7,340,788</b>	<b>23,619</b>	<b>179,045</b>	<b>\$ 7,543,452</b>

The Donations Account includes amounts donated to NSF from all sources. Amounts in the Donations Account are restricted for intended purposes. Unavailable balances include recovered expired appropriations and other amounts related to expired authority and holdings, which are unavailable for NSF use.

In 1999, in accordance with P.L. 105-277, NSF established a special fund called H-1B Nonimmigrant Petitioner Fees Account. These funds are considered "Special Funds" and are not included in Appropriated Funds. The funds are fees collected for each petition for nonimmigrant status. Under the law, NSF was prescribed a percentage of these fees for specific programs.

NSF's Cash and Other Monetary Assets as of September 30, 2005 and 2004 consisted of the following:

(Amounts in Thousands)	2005		2004	
Cash	\$	10,879	\$	9,053
Foreign Currency		317		302
<b>Total Cash and Other Monetary Assets</b>	<b>\$</b>	<b>11,196</b>	<b>\$</b>	<b>9,355</b>

### Note 3. Accounts Receivable, Net

#### Intragovernmental

The Intragovernmental Accounts Receivable consists of reimbursements and repayments due from other government agencies. As of September 30, 2005 and 2004, the amount of intragovernmental accounts receivable was \$35,824,733 and \$23,875,393 respectively.

#### Public

As of September 30, 2005 and 2004, Accounts Receivable (net) due from private organizations and individuals consisted of:

(Amounts in Thousands)	2005		2004	
Accounts Receivable	\$	98	\$	97
Allowance for Uncollectible Accounts		(1)		-
<b>Net Amount Due</b>	<b>\$</b>	<b>97</b>	<b>\$</b>	<b>97</b>

As of September 30, 2005 and 2004, the reconciliation of the allowance for uncollectible accounts is as follows:

(Amounts in Thousands)	2005		2004	
Beginning Allowance	\$	-	\$	8,182
Additions		(1)		66
Reductions (write-offs)		-		(8,248)
Ending Allowance	\$	(1)	\$	-

#### Note 4. Advances

As of September 30, 2005 and 2004, Advances consisted of the following components:

##### Intragovernmental

(Amounts in Thousands)	2005		2004	
Advances to Others	\$	26,531	\$	38,389

##### Public

(Amounts in Thousands)	2005		2004	
Advances to Grantees	\$	65,123	\$	72,268
Advances to Others		448		-
Advances to Contractors		4,090		1,155
Total Advances with the Public	\$	69,661	\$	73,423

#### Note 5. General Property, Plant and Equipment, Net

The components of General Property, Plant and Equipment as of September 30, 2005 and 2004 were:

(Amounts in Thousands)	2005			
	Acquisition Cost	Accumulated Depreciation	Net Book Value	
Equipment	\$ 98,659	\$ 79,592	\$	19,067
Aircraft and Satellites	138,487	116,084		22,403
Buildings and Structures	132,209	48,125		84,084
Construction in Progress	127,975	-		127,975
Internal Use Software	7,881	3,846		4,035
Total PP&E	\$ 505,211	\$ 247,647	\$	257,564

(Amounts in Thousands)	2004		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 121,160	\$ 103,219	\$ 17,941
Aircraft and Satellites	138,487	109,683	28,804
Buildings and Structures	129,319	44,296	85,023
Construction in Progress	104,848	-	104,848
Internal Use Software	6,259	2,432	3,827
<b>Total PP&amp;E</b>	<b>\$ 500,073</b>	<b>\$ 259,630</b>	<b>\$ 240,443</b>

### Note 6. Property, Plant and Equipment in the Custody of Other Entities

As explained in Note 1-H, *Assets Owned by NSF in the Custody of Other Entities*, NSF received a ruling from FASAB on accounting for PP&E owned by NSF but in the custody of and used by others. The FASAB guidance requires PP&E in the custody of others be excluded from NSF PP&E as defined in the Statement of Federal Financial Accounting Standards No. 6 *Accounting for Property, Plant and Equipment*. NSF is, however, required to disclose the dollar amount of NSF PP&E held by others in the footnotes based on information contained in the audited financial statements of the organization holding the assets.

The amount of PP&E owned by NSF but in the custody of other entities identified in the following table was obtained from the respective entities' audited financial statements. If the audited financial statements were not published or released by September 1, or if NSF PP&E is not separately stated on the entities' audited financial statements, then the amounts relating to such entities are annotated as Not Available (N/A) in the table.

The amounts reported by entities in their audited financial statements submitted as of September 1 are as follows:

(Amounts in Thousands)			
<i><u>Federally Funded Research and Development Centers</u></i>			
	<u>2005</u>	<u>2004</u>	<u>Year End</u>
National Astronomy & Ionosphere Center - NAIC Cornell	\$ N/A	\$ N/A	6/30
National Center for Atmospheric Research - UCAR	N/A	235,233	9/30
National Optical Astronomy Observatories - AURA	N/A	413,081	9/30
National Radio Astronomy Observatory - AUI	N/A	120,173	9/30
<i><u>Colleges and Universities</u></i>			
	<u>2005</u>	<u>2004</u>	<u>Year End</u>
California Institute of Technology	\$ N/A	\$ N/A	9/30
Columbia University	N/A	N/A	6/30
Duke University	N/A	N/A	6/30
ECPI College of Technology	N/A	N/A	6/30
Oregon State University	N/A	N/A	6/30
San Jose State University Foundation	N/A	N/A	6/30

<u>Colleges and Universities, continued</u>	<u>2005</u>	<u>2004</u>	<u>Year End</u>
Stanford University	N/A	N/A	8/31
University of Alaska Fairbanks Campus	N/A	N/A	6/30
University of California - San Diego	N/A	N/A	6/30
University of Hawaii	N/A	N/A	6/30
University of Rhode Island	N/A	N/A	6/30
University of Texas at Austin	N/A	N/A	8/31
University of Washington	N/A	N/A	6/30
University of Wisconsin - Madison	N/A	N/A	6/30
<u>Other Entities</u>	<u>2005</u>	<u>2004</u>	<u>Year End</u>
Aerodyne Research Inc	\$ N/A	\$ N/A	10/03
Articular Engineering LLC	N/A	N/A	N/A
Bermuda Biological Station for Research Inc	N/A	N/A	12/31
Bossa Nova Technologies LLC	N/A	N/A	Not Audited
Brighton Technologies Group Inc	N/A	N/A	N/A
Ekips Technologies Inc	N/A	N/A	Not Audited
EM Photonics, Inc	N/A	N/A	N/A
Fourth Wave Imaging Corporation	N/A	N/A	Not Audited
Global Contour Ltd	N/A	N/A	N/A
Imago Scientific Instruments Corp	N/A	N/A	9/30
Incorporated Research Institutions for Seismology	N/A	N/A	6/30
Information Systems Laboratories Inc	N/A	N/A	12/31
Kapetyn-Murnane Laboratories LLC	N/A	N/A	Not Audited
Lucigen Corporation (Formerly Microgen - a WI Corp)	N/A	N/A	Not Audited
Lynntech, Inc	N/A	N/A	N/A
Monterey Bay Aquarium Research Institute	N/A	N/A	12/31
Physical Optics Corporation	N/A	N/A	12/31
SINMAT Inc	N/A	N/A	Not Audited
Smithsonian Institution Astrophysical Observatory	N/A	N/A	N/A
Tetramer Technologies LLC	N/A	N/A	Not Audited
The Venture Group (Venture Innovations, Inc)	N/A	N/A	Not Audited
UNAVCO, Inc	N/A	N/A	12/31
Verionix Engineering Inc	N/A	N/A	Not Audited
Vista Engineering Inc	N/A	N/A	Not Audited
Woods Hole Oceanographic Institute	N/A	N/A	12/31

## Note 7. Other Liabilities

These are current accrued liabilities, which consist of grant and contract accruals, accrued employer contributions for payroll and benefits, disbursements in transit, accrued payroll and benefits, and various employee related liabilities for payroll and benefit deductions. As of September 30, 2005 and 2004, these liabilities consisted of the following:

(Amounts in Thousands)	2005	2004
<u>Intragovernmental</u>		
Employer Contributions for Payroll Benefits and Other	\$ 671	\$ 557
Total Intragovernmental	<u>\$ 671</u>	<u>\$ 557</u>
<u>Accrued Liabilities - Grants and Payroll</u>		
Accrued Liabilities	\$ 293,631	\$ 306,609
Accrued Payroll and Benefits	6,322	5,110
Total Accrued Liabilities - Grants and Payroll	<u>\$ 299,953</u>	<u>\$ 311,719</u>
Total Other Liabilities - Grants, Payroll and Other	<u>\$ 299,953</u>	<u>\$ 311,719</u>

### Note 8. Liabilities Not Covered by Budgetary Resources

Certain liabilities are not funded by current budgetary resources. As of September 30, 2005 and 2004, Liabilities Not Covered by Budgetary Resources consisted of the following:

(Amounts in Thousands)	2005	2004
Intragovernmental: FECA Employee Benefits	\$ 281	\$ 280
Public: FECA Employee Benefits	1,381	1,465
Accrued Annual Leave	<u>12,951</u>	<u>12,162</u>
Liabilities Not Covered by Budgetary Resources to Fund		
Cost of Operations	<u>\$ 14,613</u>	<u>\$ 13,907</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 14,613</u>	<u>\$ 13,907</u>

### Note 9. FECA Employee Benefits

As of September 30, 2005 and 2004, unreimbursed FECA cost to the DOL for actual compensation paid to recipients was \$281,116 and \$280,398 respectively. FECA provides income and medical cost protection to cover federal employees injured on the job or who have a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The DOL initially pays valid claims and then bills the employing federal agency.

As of September 30, 2005 and 2004, the estimated liability of \$1,381,000 and \$1,465,000 respectively, are for future worker compensation claims calculated by DOL and include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period and annual benefit payments discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. To account for the effects of inflation on the liability, wage and medical inflation factors are applied to the calculation of future benefits.

## Note 10. Statement of Net Cost

### Major Program Descriptions

NSF's primary business is to make merit-based grants and cooperative agreements to individual researchers and groups, in partnership with colleges, universities, and other public, private, state, local, and federal institutions, throughout the U.S. By providing these resources, NSF contributes to the health and vitality of the U.S. research and education enterprise, which enables and enhances the Nation's capacity to sustain growth and prosperity. These grants are managed through eight programmatic organizations within NSF that review and evaluate competitive proposals submitted by the science and engineering community for its consideration.

NSF is a single entity for net cost reporting purposes. NSF's programmatic organizations are the Directorates for the Biological Sciences; Computer and Information Science and Engineering; Education and Human Resources; Engineering; Geosciences; Mathematical and Physical Sciences; Social, Behavioral and Economic Sciences; and the Office of Polar Programs.

The Statement of Net Cost is a general overall presentation of NSF-wide expenses incurred by the agency. The presentation of the Statement of Net Cost is aligned with NSF's strategic goals of *Ideas, Tools, and People*. NSF's fourth strategic goal, *Organizational Excellence*, focuses on NSF's administrative and management activities. NSF has assigned ten investment categories that align to *Ideas, Tools and People*. The Investment categories for *Ideas* are Fundamental Science and Engineering; Centers; and Capability Enhancements. For *Tools* they are Large Facilities; Infrastructure and Instrumentation; Polar Tools, Facilities and Logistics; and FFRDCs. For *People* they are Individuals; Institutions; and Collaborations. These goals are outlined in NSF's FY 2003 – 2008 Strategic Plan and are integrated into NSF's FY 2006 Budget Request ([www.nsf.gov/about/budget/fy2006/toc.htm](http://www.nsf.gov/about/budget/fy2006/toc.htm)).

In pursuit of its mission, NSF makes investments in *Ideas, Tools and People*. These goals reflect outcomes at the heart of the research enterprise: discoveries across the frontier of science and engineering, connected to learning, innovation and service to society (*Ideas*); broadly accessible, state-of-the-art science and engineering facilities (*Tools*); and a diverse, competitive, and globally-engaged U.S. workforce of scientists, engineers, technologists and well-prepared citizens (*People*). *People* produce the *Ideas* that are the currency of the new knowledge-based economy. The need for more sophisticated *Tools* has paralleled recent advances in science and engineering, creating a growing demand for access to them. NSF's overall strategy is to invest in state-of-the-art tools that add unique value to research and are accessible and widely shared among researchers across the Nation.

In FY 2005 and 2004, approximately 95 percent of NSF's funds are directly related to the *Ideas, Tools, and People* strategic areas of focus. The remaining five percent of NSF's investments support *Organizational Excellence* activities. In FY 2005 and 2004, *Organizational Excellence* costs amounted to \$292,426,388 and \$268,298,594, respectively. All organizational excellence costs are assigned on a prorated basis to the *Ideas, Tools and People* strategic areas.

In FY 2005 and 2004, *Organizational Excellence* activities include Salary & Expenses, NSB and Office of Inspector General (OIG) expenses which provide for salaries and benefits of persons employed at the NSF; general operating expenses, including key activities to advance the NSF information systems technology and to enhance staff training, audit and OIG activities, and OPM and DOL benefits costs paid on behalf of NSF. These indirect costs are allocated to NSF programs based on each program's direct costs.

In FY 2005, NSF implemented programmatic realignments that affected certain investment categories within the Statement of Net Cost. Under the *Ideas* strategic goal, NSF updated the principles governing *Centers* programs. This led to a number of activities being reclassified from the *Centers* investment category to *Fundamental Science and Engineering (FS&E)*. The impact on the FY 2005 Statement of Net Cost was a reduction in expenditures reported as *Centers* and an increase in expenditures reported as *FS&E*. Under the *People* strategic goal, NSF reclassified several activities within all of the investment categories, which had a minimal overall impact on the Statement of Net Cost.

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are identified as "intragovernmental." All earned revenues are funding sources provided through reimbursable agreements with other federal entities and are retained by NSF. Earned revenues are recognized when the related program or administrative expenses are incurred and are deducted from the full cost of the programs to arrive at the net cost of operating NSF's programs. In FY 2005, NSF implemented a change that assigned earned revenue to the related strategic area based on appropriation type rather than prorating across all investment categories. NSF applies an administrative fee for grant management services provided to other federal entities. The administrative fee is based on the ratio of prior year administrative cost to total expenses. The intragovernmental costs are as follows:

*Intragovernmental and Public Costs and Earned Revenue by Investment Category*

(Amounts in Thousands)	2005		
	Federal	Public	Total
<u>Ideas</u>			
Fundamental Science & Engineering	\$ 28,167	2,298,943	
Centers	-	176,183	
Capability Enhancements	-	202,855	
Total Ideas Program Cost			2,706,148
Less: Earned Revenue			119,826
Net Ideas			<u>2,586,322</u>
<u>Tools</u>			
Large Facilities	10,399	521,512	
Infrastructure and Implementation	16,836	304,319	
Polar Tools, Facilities and Logistics	105,351	207,433	
Federally Funded R&D Centers	6,067	203,503	
Total Tools Program Cost			1,375,420
Less: Earned Revenue			324
Net Tools			<u>1,375,096</u>
<u>People</u>			
Individuals	\$ 4,116	890,111	
Institutions	206	179,150	
Collaborations	130	379,359	
Total People Program Cost			1,453,072
Less: Earned Revenue			6,316
Net People			<u>1,446,756</u>
Total Net Costs	\$ 171,272	5,363,368	<u>5,408,174</u>

*Notes to the Principal Financial Statements  
As of and for the Years Ended September 20, 2005 and 2004*

(Amounts in Thousands)	2004		
	<u>Federal</u>	<u>Public</u>	<u>Total</u>
<b>Ideas</b>			
Fundamental Science & Engineering	\$ 25,312	2,096,153	
Centers	2,400	295,169	
Capability Enhancements	1,596	219,531	
Total Ideas Program Cost			2,640,161
Less: Earned Revenue			62,110
Net Ideas			2,578,051
<b>Tools</b>			
Large Facilities	5,260	530,903	
Infrastructure and Implementation	15,688	264,854	
Polar Tools, Facilities and Logistics	70,276	174,956	
Federally Funded R&D Centers	4,275	208,113	
Total Tools Program Cost			1,274,325
Less: Earned Revenue			13,341
Net Tools			1,260,984
<b>People</b>			
Individuals	3,368	647,682	
Institutions	62	202,025	
Collaborations	2,233	426,027	
Total People Program Cost			1,281,397
Less: Earned Revenue			20,289
Net People			1,261,108
<b>Total Net Costs</b>	<b>\$ 130,471</b>	<b>5,065,413</b>	<b>5,100,143</b>

Gross Cost and Earned Revenue by Budget Functional Classification

Total Gross Cost and Earned Revenue by Budget Functional Classification for FY 2005 and 2004 were as follows:

Budget Functional Classification

NSF - General Science, Space and  
Technology (Code 250)

(Amounts in Thousands)	2005		2004	
Gross Cost	\$ 5,534,640	\$	5,195,883	
Earned Revenue	126,466		95,740	
Net Cost	\$ 5,408,174	\$	5,100,143	

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification for FY 2005 and 2004 were as follows:

Budget Functional Classification			
NSF - General Science, Space and Technology (Code 250)			
(Amounts in Thousands)		2005	2004
Gross Cost	\$	171,272	\$ 130,471
Earned Revenue		126,466	95,740
Net Cost	\$	44,806	\$ 34,731

**Note 11. Budgetary Resources**

Budget Authority includes \$31,163,816 and \$23,937,915 of donations and interest as of September 30, 2005 and 2004, respectively. Budget Authority increased as a result of non-expenditure transfers from the U.S. Agency for International Development of \$9,670,000 in 2005, and \$11,250,000 in 2004. Budget Authority as of September 30, 2005 and 2004 was also adjusted for Congressional initiated rescissions contained in P.L. 108-447 totaling \$44,135,680 and P.L. 108-199 totaling \$33,104,065, respectively.

NSF maintains permanent indefinite appropriations for Research and Related Activities - 49x0100 and Major Research Equipment - 49x0551. NSF also maintains permanent indefinite accounts for Donations - 49x8960 and H-1B Nonimmigrant Petitioner fees - 49x5176.

The status of Budgetary Resources as of September 30, 2005, consisted of Budgetary Resources obligated of \$5,653,903,006 available authority of \$155,530,239 and unavailable authority of \$88,143,790. The status of Budgetary Resources as of September 30, 2004, consisted of Budgetary Resources obligated of \$5,870,718,720 available authority of \$85,230,105 and unavailable authority of \$93,913,641.

**Note 12. Commitments and Contingencies**

Claims: Other Intragovernmental Liabilities include contractor claims for additional compensation under a contract awarded by the United States Air Force for the reconfiguration of three NSF owned LC130 aircraft was paid by the Judgment Fund for \$2,999,941 and is reflected on the balance sheet. NSF plans to include a request for funds in its FY 2007 budget submission in order to reimburse the Judgment Fund.

**Note 13. Statement of Financing Disclosures**

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods.

Liabilities Not Covered by Budgetary Resources of \$14,613,101 and \$13,907,308 for FY 2005 and 2004, respectively, represent NSF's FECA liability to DOL and employees, leave earned but not taken, and lease liabilities. The amount reported on the Statement of Financing as Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods of \$789,793 for FY 2005 and \$1,058,445 for FY 2004, represents the change in NSF's expenses for unfunded liabilities for FECA, leave earned but not taken, and lease liabilities.

#### **Note 14. Estimated Clean up Cost Liability**

Environmental and Clean up Costs: The Toolik Field Station is operated by the Institute of Arctic Biology at the University of Alaska, Fairbanks. As the primary customer for the Institute, NSF projects a remaining balance of \$116,395 in remediation costs for the Toolik Field Station oil spill that occurred on August 25, 2001. This figure is reflected in the Balance Sheet.

Joint planning for the clean up of Cape Hallett, the former U.S. and New Zealand station, is ongoing. At the present time it is anticipated that approximately \$5,000 will be expended in FY 2006 to disassemble and pack all items planned for removal. Options for removing the remaining materials from the site in the future are the subject of ongoing discussions between the U.S. and New Zealand. No cost estimate can be made beyond FY 2006. In the interim, the site will be monitored.

NSF is continuing its actions to excess the National Scientific Balloon Facility (NSBF), renamed Columbia Scientific Balloon Facility (CSBF), land through the General Services Administration to the National Aeronautics and Space Administration (NASA) by completing a no-cost transfer. NASA engineers have reported 10 wells on the NSBF site and are aware of one contaminated well from battery disposal. NSF estimates total future outflow for clean-up costs to range between \$45,500 and \$228,733. This estimate is based upon the proposed NSF share of Phase II Environmental Due Diligence Audit (EDDA) of the CSBF assessment resulting from findings in the Due Diligence Audit Phase I. NSF has not evaluated these findings reported by NASA's contractor that a Phase II EDDA is necessary.

