

---

## Chapter 2: Financial Statements

---



Credit: Sandy Schaeffer

### A Message from the Chief Financial Officer

I am pleased to report that for fiscal year (FY) 2010 the National Science Foundation (NSF) received an unqualified audit opinion, affirming that NSF's financial statements for the year ended September 30, 2010, were presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles. This is the agency's thirteenth consecutive unqualified audit opinion. The audit report included no material weaknesses; however, the prior year significant deficiency related to the monitoring of cost reimbursement contracts was repeated. The audit report acknowledged that progress had been made during the last year but insufficient cost surveillance procedures continue to exist.

NSF will prioritize its resources in an effort to address the key findings and recommendations in the report. In addition, we will continue to work in partnership with the Office of Inspector General to develop an action plan that will enable the agency to resolve the deficiency.

NSF's high standards for performance and integrity extend to financial management and business processes. This includes ensuring that critical business processes are run effectively and efficiently; responding rapidly to change; providing timely, reliable information to inform management decisions; and maintaining the highest level of business services. An added challenge is the focus on transparency and open access to data established by the Transparency Act and the American Recovery and Reinvestment Act (ARRA), which is becoming the new standard in financial management.

In the last year, activities of note include the following:

- The American Recovery and Reinvestment Act (ARRA) continued to have a significant impact on the agency. NSF obligated the remaining \$600 million of its ARRA funds and established an extensive program to monitor awardee performance and recipient reporting and spending. For the four quarters ending June 30, 2010, the average recipient reporting rate was 99.2 percent. Of the nearly 5,000 reports submitted to NSF each quarter—the fourth highest across all federal agencies—only 0.02 percent included an error. Moreover, because of rigorous monitoring, no ARRA-funded awards were terminated for not making expenditures in the first year.
- To improve grant administration, NSF's entire suite of Award Terms and Conditions was updated to incorporate new mandates issued by the Office of Management and Budget (OMB) including such items as reporting information on first-tier sub-awards and required maintenance of valid Central Contractor Registration and Universal Identifier Requirements, among others.
- To enhance NSF's advanced post-award monitoring effort, the Award Monitoring and Business Assistance Program was updated to integrate the results of the quarterly ARRA reporting requirements. In addition, NSF has refocused its monitoring efforts on organizations identified as needing more intensive business assistance.
- In accordance with new requirements for financial management systems, NSF enhanced the internal control program by conducting a review and risk assessment to ensure agency compliance with applicable laws and regulations. Based on the results of the evaluation, NSF can provide reasonable assurance in reporting substantial compliance.

- Although OMB renewed NSF's relief from the annual Improper Payments Information Act reporting for FY 2010 and FY 2011 due to the low level of NSF's improper payments, NSF continues to actively monitor improper payments. NSF management worked with OMB and the NSF Office of Inspector General (OIG) to implement Executive Order 13520 by providing quarterly reports on high-dollar improper payments to the OIG.

A more detailed discussion of these activities and others is included in this report. This report also includes a summary of information related to NSF's performance toward specific goals established in keeping with both ARRA and the Government Performance and Results Act (GPRA). Of particular note for FY 2010 is NSF achieving its goals for investing in potentially transformative research and for establishing metrics for programs that contribute to the "Learning" strategic goal.



Martha A. Rubenstein  
Chief Financial Officer and  
Director, Office of Budget, Finance and Award Management

November 15, 2010



National Science Foundation • 4201 Wilson Boulevard • Arlington, Virginia 22230  
Office of the Inspector General

November 12, 2010

TO: Dr. Subra Suresh  
Director, National Science Foundation

Dr. Ray M. Bowen  
Chair, National Science Board

FROM: Allison Lerner   
Inspector General, National Science Foundation

SUBJECT: Audit of the National Science Foundation's  
Fiscal Years 2010 and 2009 Financial Statements

This memorandum transmits Clifton Gunderson LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2010 and 2009.

### **Results of Independent Audit**

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Clifton Gunderson LLP, an independent public accounting firm, performed an audit of NSF's Fiscal Years 2010 and 2009 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended, issued by the United States Office of Management and Budget.

Clifton Gunderson LLP issued an unqualified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, Clifton Gunderson LLP reported a significant deficiency related to NSF's monitoring of cost reimbursement contracts and did not report any material weaknesses in internal control. Clifton Gunderson LLP also reported that there were no reportable instances in which NSF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Finally, Clifton Gunderson LLP found no reportable instances of noncompliance with laws and regulations it tested.

NSF management's response, dated November 11, 2010, follows Clifton Gunderson LLP's report.

### **Evaluation of Clifton Gunderson LLP's Audit Performance**

To fulfill our responsibilities under the CFO Act of 1990, as amended, and other related federal financial management requirements, the OIG:

- Reviewed Clifton Gunderson LLP's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with NSF management to discuss audit progress, findings, and recommendations;
- Reviewed Clifton Gunderson LLP's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 07-04, as amended; and
- Coordinated issuance of the audit report.

Clifton Gunderson LLP is responsible for the attached auditor's report dated November 11, 2010, and the conclusions expressed in the report. We do not express any opinion on NSF's financial statements or conclusions on the effectiveness of internal control, on compliance with laws and regulations, or on whether NSF's financial management systems substantially complied with FFMIA.

The Office of Inspector General appreciates the courtesies and cooperation NSF extended to Clifton Gunderson LLP and OIG staff during the audit. If you or your staff has any questions, please contact me or Dr. Brett M Baker, Assistant Inspector General for Audit on 703-292-2985.

Attachment

cc: Mr. Arthur K. Reilly, Chair, Audit and Oversight Committee

## **Independent Auditor's Report**

Inspector General, National Science Foundation  
Director, National Science Foundation  
Chair of National Science Board

In our audit of the National Science Foundation (NSF) for fiscal year (FY) 2010 we found:

- The balance sheets of NSF as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as "consolidated financial statements") are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and no material non-compliance with laws and regulations, however we did note a significant deficiency in internal control over financial reporting;
- Progress has been made in FY 2010 on the control deficiency condition noted in the FY 2009 auditor's report; however, certain matters relating to that condition continue to exist and are reported herein as a significant deficiency;
- No reportable instances of noncompliance with laws and regulations we tested, including the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other supplementary information, (3) our audit objectives, scope and methodology, and (4) agency comments and our evaluation.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion, the accompanying financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, NSF's assets, liabilities, and net position as of September 30, 2010 and 2009; and net costs; changes in net position; and budgetary resources for the years then ended.

### **CONSIDERATION OF INTERNAL CONTROL**

In planning and performing our audit, we considered NSF's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Exhibit I to be a significant deficiency in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described in Exhibit I is a material weakness.

We also noted certain other non-reportable matters involving internal control and its operation that we will communicate in a separate letter to NSF management.

## **SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS**

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by NSF substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, our work disclosed no instances in which NSF's financial management systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards or the SGL at the transaction level.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests of NSF's compliance with selected provisions of laws and regulations for FY 2010 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the objective of our

audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## **STATUS OF PRIOR YEAR'S CONTROL DEFICIENCY**

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, we have reviewed the status of NSF's corrective actions with respect to the finding and recommendations included in the prior year's Independent Auditor's Report dated November 12, 2009.

The prior year audit report noted one control deficiency: *Contract Monitoring on Cost Reimbursement Contracts*. Even though NSF made improvements in its contract monitoring policies and procedures in FY 2010, continued improvements are needed. Accordingly, this matter is again included in this report (Exhibit I) as a significant deficiency. The introductory paragraph of Exhibit I provides a brief discussion on the status of the prior year findings and recommendations.

## **CONSISTENCY OF OTHER INFORMATION**

NSF Management's Discussion and Analysis (MD&A) and other required supplementary information contains a wide range of information, some of which is not directly related to the financial statements. We compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with NSF officials. Based on this limited work, we found no material inconsistencies with the financial statements; accounting principles generally accepted in the United States, or OMB guidance. However, we do not express an opinion on this information.

Other information, exclusive of the MD&A and the Financials sections listed in the table of contents of the FY 2010 Agency Financial Report, is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

NSF management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA), are met, (3) ensuring that NSF's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient

understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether NSF's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Agency Financial Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of NSF and its operations, including its internal control related to financial reporting (including safeguarding of assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether NSF's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

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

We did not test compliance with all laws and regulations applicable to NSF. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to NSF's financial statements for the fiscal year ended September 30, 2010. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB guidance. We believe our audits provide a reasonable basis for our opinion.

## **AGENCY COMMENTS AND OUR EVALUATION**

NSF's response to the findings identified in our audit is described in the accompanying Exhibit II. We did not audit NSF's response and, accordingly, we express no opinion on it.

\*\*\*\*\*

This report is intended solely for the information and use of NSF's management, the National Science Board, NSF's Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Clifton Henderson LLP*

Calverton, Maryland  
November 11, 2010

NATIONAL SCIENCE FOUNDATION  
CONSIDERATION OF INTERNAL CONTROL  
SIGNIFICANT DEFICIENCY  
September 30, 2010

**Monitoring of Cost Reimbursement Contracts**

**Background and Control Deficiency Assessment Criteria:**

NSF has made progress in FY 2010 in addressing the three conditions noted in our FY 2009 Audit Report on the significant deficiency “Contract Monitoring on Cost Reimbursement Contracts.” However, the most important of these prior year conditions (insufficient cost surveillance procedures) continues to exist, which therefore increases the risk that contract funds are not being adequately protected from waste, fraud, and mismanagement.

The weaknesses noted during our audit are as follows:

1. Delays in securing incurred cost audits for NSF’s largest and riskiest contracts, and not properly monitoring the receipt, audit, and approval of Cost Accounting Standards (CAS) disclosure statements and incurred cost submissions.
2. Implementation near the end of the fiscal year of contract oversight procedures, resulting in previously noted inadequate and ineffective procedures during the audit period. The most significant of which is the lack of NSF’s evaluation of contractor’s accounting systems prior to awarding cost reimbursement type contracts.

Without incurred cost audits and verifying recent implementation of improvements to contract oversight procedures, management cannot ensure the reasonableness and accuracy of costs paid on contracts, especially those considered “high risk.”

**Conditions:**

In FY 2010, NSF obligated approximately \$422 million for contracts for the delivery of products and services. Of this amount, \$283 million was obligated for cost reimbursement contracts, of which \$204 million allow advance payments for services on programs with three contractors, with the majority going to one contractor.

The following paragraphs describe the specific conditions that exist at September 30, 2010.

**1. Incurred Cost Audits, Cost Disclosure Statements, and Cost Submissions**

Incurred cost audits are an important tool that enables management to assess a contractor’s compliance with financial terms and conditions of a contract. For contracts subject to Cost Accounting Standards (CAS), an incurred cost audit can only be effectively performed with an approved CAS disclosure statement and incurred cost submissions.

*NSF’s Largest Contractor* - In the FY 2000 to 2004 incurred cost audits of NSF’s largest contractor, the Defense Contract Audit Agency (DCAA) initially questioned approximately \$56 million for the five-year period. At September 30, 2009, approximately \$30 million of questioned costs remained unresolved and less than \$1 million of that amount was resolved in FY 2010.

NSF has been approving advanced payments without an approved CAS disclosure statement since FY 2004. During FY 2010, the contractor provided a disclosure statement effective January 1, 2005; however, DCAA reported in October 2010 that the disclosure statement did not adequately describe the contractor's revised cost accounting practices. Accordingly, it is unclear what the impact of not having an adequate CAS disclosure statement since January 1, 2005 will have on the resolution of remaining DCAA identified questioned costs for FY 2000 to 2004. In addition, future years' incurred cost audits cannot begin until an adequate CAS disclosure statement is submitted and approved. Without an audited and approved CAS disclosure statement in place for this contractor since 2004, NSF may not be able to collect future questioned costs identified for the remaining term of the contract.

NSF has been attempting to obtain an incurred cost audit of its largest contractor for FYs 2005 to FY 2009 with DCAA; however, DCAA delayed committing to do these audits until September 2010, and then only agreed to perform these audits for FYs 2005 to 2007. These audits are not expected to be completed until late FY 2011 and no plans have been made for performing audits on costs incurred since FY 2007.

*Other Contractors* - Based on materiality and risk, NSF contracted with DCAA to perform incurred cost audits for other cost reimbursement contracts. However, most of these audits are currently in process or will start next fiscal year and will not be completed until FY 2011. Therefore, NSF has not had information in the current fiscal year to determine if costs paid were reasonable, allocable, and allowable. For several of these identified contracts NSF has obtained the CAS disclosure statements. However, a number of these disclosure statements have not yet been deemed adequate.

In summary, without approved disclosure statements and the performance of related incurred cost audits of contractor cost submissions, NSF does not have assurance that it has not overpaid for services provided by its largest and other high risk contractors.

## **2. Documentation and Effectiveness of Oversight Procedures**

a) *Contracting Manual* - We previously reported that NSF's contract monitoring program to oversee and monitor its contract system was inadequate in part because its policies and procedures were not comprehensively risk-based. NSF has provided us with various forms of documentation to support the implementation of its contract oversight improvement action plan during FY 2010. The plan culminated in NSF issuing a revised Contracting Manual on October 1, 2010 to address the recommendations in the FY 2009 Audit Report.

However, since many of these procedural improvements were made toward the end of the audit testing cycle, we were unable to fully assess the implementation and effectiveness of these revisions. Therefore, we were unable to determine if the following oversight deficiencies\condition noted in our FY 2009 Audit Report have been fully resolved:

- Consideration and documentation of NSF's pricing history of cost reimbursement contracts to determine if there is a basis to convert to a contract type with firmer pricing;

- Compliance with the requirements of FAR 9.105-1 related to “Responsible Prospective Contractors” including procedures to document the review to ensure the adequacy of prospective contractors’ accounting systems prior to, or shortly after, making the award;
  - Obtaining all contractors’ applicable CAS disclosure statements as required by the FAR, and ensuring that they are audited and approved timely.
  - Obtaining and reviewing incurred cost submissions within the 6-month period following the expiration of each of the contractors’ fiscal years.
  - Performing periodic validation of incurred costs on cost-reimbursement and other high risk contracts.
- b) Routine Oversight Procedures – In addition to its Incurred Cost Audit Program described above, NSF does have a program in place to perform examinations of the costs claimed by its three advance payment contractors. Under this oversight program DCAA performs Quarterly Expenditure Report (QER) reviews of NSF’s contractor billings. However, since there have been delays by DCAA in completing the planned QER reviews, we deemed NSF’s oversight program to be less effective than necessary. In addition, although these QERs add value, they are not a substitute for incurred cost audits that test for allowability of costs, both direct and indirect. An oversight program based on these QER reviews alone provides limited assurance that the amounts paid were reasonable and benefited the NSF projects. Relying on only these QER reviews for oversight purposes highlights the need for timely incurred cost audits for high risk contracts. Without performing incurred cost audits, NSF does not have the information needed to detect significant over-spending on its advance payment contracts.
- c) NSF OIG Reports and Communications – In FY 2010, the OIG issued memoranda and transmitted reports prepared by DCAA, which identified ongoing weaknesses in NSF’s monitoring of contracts and similar agreements. Weaknesses noted include lack of determination of CAS disclosure statements, accounting system adequacy, unresolved questioned costs, and noncompliance with CAS.

The OIG provided NSF with a DCAA report on September 30, 2010 that questioned the allowability of \$88 million in contingency costs provided for in a proposed budget relating to a construction co-operative agreement proposal with a major NSF awardee. NSF began issuing incremental funding actions on this cooperative agreement proposal in September 2009, which was prior to DCAA’s report being issued. OMB Circular A-50 provides for a six-month period to resolve audit findings.

In summary, the risk of waste, fraud, and abuse by NSF contractors, especially for NSF’s three advance payment contractors, representing FY 2010 obligations of \$204 million, will continue to be high until NSF fully implements its new risk-based cost surveillance procedures.

## **Recommendations:**

Overall, we recommend that NSF fully implement its new cost surveillance oversight procedures. We specifically recommend that NSF management focus its efforts in the following areas:

### **1. Incurred Cost Audits, Cost Disclosure Statements, and Cost Submissions**

- a) Depending on materiality and risk, and in accordance with Federal Acquisition Regulation (FAR), continue to obtain incurred cost audits for cost reimbursable contracts to obtain assurance of the validity of costs billed to NSF and ensure the findings are addressed in a timely manner.
- b) Review DCAA's audit programs for the FYs 2005 to 2007 incurred cost audits of NSF's largest contract to ensure that they include steps to test for weaknesses identified in prior incurred cost audits and follow up of prior audit findings. NSF should also begin securing a commitment from DCAA to obtain incurred cost audits for FYs 2008 through the end of the contract.
- c) When NSF is the Cognizant Federal Agency Official (CFAO):
  - Ensure that contractors subject to the allowable cost and payment clause provide cost incurred submissions within 6 months following the expiration of each contractor's fiscal year. Audits of these submissions should be performed depending on materiality and risk.
  - Obtain all contractors' approved CAS disclosure statements as required by FAR 52.230-2 "Cost Accounting Standards" and FAR 52.230-6 "Administration of Cost Accounting Standards" and ensure they are audited, approved timely and that the established cost accounting practices are followed consistently.
- d) When NSF is not the CFAO, NSF should obtain documentation to support the results of the audits of the contractor's disclosure statements to ensure the established cost accounting practices are being consistently followed. In addition, NSF should continue to consider incurred cost audits for those contracts NSF determines to be high risk, and for which the CFAO has not obtained such an audit.

### **2. Oversight Procedures**

- a) Continue to perform contract file reviews to ensure that all the revisions to the Contracting Manual (October 2010) are effectively implemented. For example, NSF should:
  - Fully document the rationale for contract type selection, including consideration of pricing history under cost-reimbursement contracts.
  - Ensure that the contractor's accounting system has been deemed to be adequate within four years prior to the award process. In addition, as part of the post-award oversight procedure, NSF should ensure the contractor's accounting system is periodically reviewed throughout the life of the contract to determine that the system is still adequate to accurately capture for costs pursuant to the terms of the contract.

- b) Continue the Quarterly Expenditure Report (QER) review program and evaluate the scope of the review (i.e. Opinion report vs. Agreed Upon Procedures report) based on what other oversight procedures have been performed recently and the overall risk of cost error in the contract. For example, if incurred cost audits are planned or expected for a particular contractor, NSF management may be able to reduce the scope of the QER from an opinion report to an AUP report. NSF management should continue to monitor the completion status of DCAA's QER reports.
- c) Evaluate and prioritize the findings and recommendations detailed in the OIG reports and alert memos issued, and reach an agreement on such priorities with the OIG to begin taking corrective actions. In addition, with respect to DCAA's September 2010 report, NSF should also arrange a meeting with the OIG immediately to begin the OMB prescribed resolution process.

**EXHIBIT II**

**NATIONAL SCIENCE FOUNDATION  
MANAGEMENT'S RESPONSE TO FY 2010  
INDEPENDENT AUDITOR'S REPORT  
November 11, 2011**

NATIONAL SCIENCE FOUNDATION  
4201 WILSON BOULEVARD  
ARLINGTON, VIRGINIA 22230

NOV 11 2010

To: Allison Lerner, Inspector General

From: Martha A. Rubenstein, Chief Financial Officer *Marty*

Subject: Management's Response to Independent Auditor's Report for  
Fiscal Year 2010

I would like to thank you for the National Science Foundation's (NSF) Fiscal Year (FY) 2010 Financial Statements Audit Report. This is the thirteenth consecutive year that we have achieved an unqualified opinion on the Financial Statements. I am proud of the accomplishment that our NSF staff achieved in supporting the audit of the financial statements. I also appreciate the cooperation and respect that your staff and Clifton Gunderson provided during the course of the audit.

NSF generally agrees with the significant deficiency and recommendations in the audit report. As stated in your report, the Foundation has continued to improve its monitoring of cost reimbursement contracts. For example: we are working diligently with the Defense Contract Audit Agency (DCAA) to ensure cost incurred audits are performed as appropriate. We also updated our contract procedures and implemented several actions throughout the FY.

Concerning the DCAA audit report on construction contingency costs, we issued a position paper to the Office of Inspector General on October 31<sup>st</sup> describing our disagreement with the conclusions in the report in this area. NSF uses contingencies for estimating construction project budgets to identify resources that the awardee must expend to accomplish the project. This is a well recognized and accepted practice in forecasting construction project budgets, and is distinct from the policies for allowability of costs. Our position is supported by NSF's General Counsel.

The DCAA audit report will be formally resolved in accordance with established audit resolution procedures that conform to Office of Management and Budget's Circular A-50 "Audit Follow-up." NSF is currently evaluating, in depth, the findings and recommendations included in the DCAA audit report and will issue a final decision including actions we conclude will be necessary and timeframes for completing those actions by the awardee organization. Management's decision will be documented in the Audit Resolution Memorandum.

The Foundation is dedicated to meeting ongoing challenges in financial management while achieving excellent results in delivering better information to our stakeholders. I look forward to continuing our strong working relationship with your office.

copies: Dr. Subra Suresh  
Dr. Cora B. Marrett



## **National Science Foundation**

### **FINANCIAL STATEMENTS**

As of and for the years ended  
September 30, 2010 and 2009

**National Science Foundation  
Balance Sheet  
As of September 30, 2010 and 2009  
(Amounts in Thousands)**

<b>Assets</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 12,458,688	\$ 12,233,069
Accounts Receivable	14,390	11,996
Advances (Note 3)	9,782	19,187
Total Intragovernmental Assets	<u>12,482,860</u>	<u>12,264,252</u>
Cash and Other Monetary Assets		
Accounts Receivable, Net	44,683	61,305
Advances (Note 3)	126	290
General Property, Plant and Equipment, Net (Notes 4 and 5)	-	39,893
	276,754	261,389
<b>Total Assets</b>	<b>\$ <u>12,804,423</u></b>	<b>\$ <u>12,627,129</u></b>
<b>Liabilities</b>		
Intragovernmental Liabilities		
Advances From Others	\$ 42,224	\$ 44,380
Employer Contributions	1,612	1,454
FECA Employee Benefits	340	310
Other Intragovernmental Liabilities	3,000	3,000
Total Intragovernmental Liabilities	<u>47,176</u>	<u>49,144</u>
Accounts Payable	55,709	47,849
FECA Employee Benefits	1,356	1,319
Accrued Liabilities - Grants	440,796	370,857
Accrued Liabilities - Contracts and Payroll	33,560	35,486
Accrued Annual Leave	17,413	16,889
<b>Total Liabilities</b>	<b>\$ <u>596,010</u></b>	<b>\$ <u>521,544</u></b>
Commitments and Contingencies		
<b>Net Position</b>		
Unexpended Appropriations - Other Funds	\$ 11,548,234	\$ 11,439,991
Cumulative Results of Operations - Earmarked Funds (Note 7)	335,454	355,872
Cumulative Results of Operations - Other Funds	324,725	309,722
<b>Total Net Position</b>	<u>12,208,413</u>	<u>12,105,585</u>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>12,804,423</u></b>	<b>\$ <u>12,627,129</u></b>

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

**National Science Foundation  
Statement of Net Cost  
For the Years Ended September 30, 2010 and 2009  
(Amounts in Thousands)**

<b>Program Costs</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Research and Related Activities		
Gross Costs	\$ 5,871,545	\$ 5,014,818
Less: Earned Revenues	<u>(93,667)</u>	<u>(100,934)</u>
<b>Net Research and Related Activities</b>	<b><u>5,777,878</u></b>	<b><u>4,913,884</u></b>
Education and Human Resources		
Gross Costs	\$ 775,422	\$ 796,311
Less: Earned Revenues	<u>(8,859)</u>	<u>(8,593)</u>
<b>Net Education and Human Resources</b>	<b><u>766,563</u></b>	<b><u>787,718</u></b>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 178,840	\$ 146,683
Less: Earned Revenues	<u>-</u>	<u>-</u>
<b>Net Major Research Equipment and Facilities Construction</b>	<b><u>178,840</u></b>	<b><u>146,683</u></b>
Costs Not Assigned to Other Programs		
Gross Costs	\$ 171,825	\$ 154,095
Less: Earned Revenues	<u>-</u>	<u>-</u>
<b>Net Costs Not Assigned to Other Programs</b>	<b><u>171,825</u></b>	<b><u>154,095</u></b>
<b>Net Cost of Operations (Notes 8 and 15)</b>	<b><u>\$ 6,895,106</u></b>	<b><u>\$ 6,002,380</u></b>

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

**National Science Foundation  
Statement of Changes in Net Position  
For the Year Ended September 30, 2010  
(Amounts in Thousands)**

	<u>2010</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
<b>Cumulative Results of Operations</b>			
<b>Beginning Balances (Note 7)</b>	\$ 355,872	309,722	665,594
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	6,730,584	6,730,584
Non-exchange Revenue	-	229	229
Donations	-	54,300	54,300
Appropriated Earmarked Receipts Transferred In (Note 7)	91,221	-	91,221
<b>Other Financing Sources</b>			
Imputed Financing From Costs Absorbed By Others	-	13,066	13,066
Other	-	291	291
<b>Total Financing Sources</b>	<b>91,221</b>	<b>6,798,470</b>	<b>6,889,691</b>
<b>Net Cost of Operations (Notes 7 and 8)</b>	<b>(111,639)</b>	<b>(6,783,467)</b>	<b>(6,895,106)</b>
<b>Cumulative Results of Operations (Note 7)</b>	<b>\$ 335,454</b>	<b>324,725</b>	<b>660,179</b>
<b>Unexpended Appropriations</b>			
<b>Beginning Balances</b>	\$ -	11,439,991	11,439,991
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	6,926,510	6,926,510
Appropriations Transferred In / (Out)	-	(54,000)	(54,000)
Other Adjustments	-	(33,683)	(33,683)
Appropriations Used	-	(6,730,584)	(6,730,584)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>108,243</b>	<b>108,243</b>
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,548,234</b>	<b>11,548,234</b>
<b>Net Position</b>	<b>\$ 335,454</b>	<b>11,872,959</b>	<b>12,208,413</b>

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

**National Science Foundation  
Statement of Changes in Net Position  
For the Year Ended September 30, 2009  
(Amounts in Thousands)**

	<u>2009</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
<b>Cumulative Results of Operations</b>			
<b>Beginning Balances (Note 7)</b>	\$ 364,640	322,205	686,845
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	5,835,603	5,835,603
Non-exchange Revenue	-	567	567
Donations	-	46,857	46,857
Appropriated Earmarked Receipts Transferred In (Note 7)	88,657	-	88,657
<b>Other Financing Sources</b>			
Imputed Financing From Costs Absorbed By Others	-	10,149	10,149
Other	-	(704)	(704)
<b>Total Financing Sources</b>	<b>88,657</b>	<b>5,892,472</b>	<b>5,981,129</b>
<b>Net Cost of Operations (Notes 7 and 8)</b>	<b>(97,425)</b>	<b>(5,904,955)</b>	<b>(6,002,380)</b>
<b>Cumulative Results of Operations (Note 7)</b>	<b>\$ 355,872</b>	<b>309,722</b>	<b>665,594</b>
 <b>Unexpended Appropriations</b>			
<b>Beginning Balances</b>	\$ -	7,813,135	7,813,135
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	9,492,400	9,492,400
Appropriations Transferred In / (Out)	-	3,214	3,214
Other Adjustments	-	(33,155)	(33,155)
Appropriations Used	-	(5,835,603)	(5,835,603)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>3,626,856</b>	<b>3,626,856</b>
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,439,991</b>	<b>11,439,991</b>
<b>Net Position</b>	<b>\$ 355,872</b>	<b>11,749,713</b>	<b>12,105,585</b>

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

**National Science Foundation**  
**Statement of Budgetary Resources (page 1 of 2)**  
**For the Years Ended September 30, 2010 and 2009**  
**(Amounts in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>Budgetary Resources</b>		
Unobligated Balance - Brought Forward, October 1	\$ 881,665	\$ 243,570
Recoveries of Prior Year Unpaid Obligations	58,155	62,113
Budget Authority		
Appropriation	7,072,259	9,628,481
Spending Authority From Offsetting Collections		
Earned		
Collected	100,185	109,561
Change in Receivables From Federal Sources	2,393	69
Change in Unfilled Customer Orders		
Advance Received	(2,156)	(52,881)
Without Advance From Federal Sources	<u>5,697</u>	<u>61,637</u>
Subtotal - Budget Authority	7,178,378	9,746,867
Nonexpenditure Transfers, Net - Anticipated and Actual	(54,000)	3,214
Permanently Not Available	(33,682)	(33,155)
<b>Total Budgetary Resources (Note 12)</b>	<b>\$ <u>8,030,516</u></b>	<b>\$ <u>10,022,609</u></b>

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

---

**National Science Foundation**  
**Statement of Budgetary Resources (page 2 of 2)**  
**For the Years Ended September 30, 2010 and 2009**  
(Amounts in Thousands)

	<u>2010</u>	<u>2009</u>
<b>Status of Budgetary Resources</b>		
Obligations Incurred		
Direct (Note 11)	\$ 7,715,530	\$ 9,021,671
Reimbursable (Note 11)	108,452	119,273
Total Obligations Incurred (Note 12)	<u>7,823,982</u>	<u>9,140,944</u>
Unobligated Balance - Apportioned (Note 2)	105,102	787,497
Unobligated Balance - Not Available (Note 2)	101,432	94,168
<b>Total Status of Budgetary Resources (Note 12)</b>	<b>\$ <u>8,030,516</u></b>	<b>\$ <u>10,022,609</u></b>
<b>Change in Obligated Balances</b>		
Obligated Balance, Net		
Unpaid Obligations - Brought Forward, October 1	11,502,924	8,488,021
Less: Uncollected Customer Payments From Federal Sources - Brought Forward, October 1	(90,215)	(28,509)
Total Unpaid Obligated Balance, Net	<u>11,412,709</u>	<u>8,459,512</u>
Obligations Incurred	7,823,982	9,140,944
Less: Gross Outlays	(6,873,609)	(6,063,928)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(58,155)	(62,113)
Change in Uncollected Customer Payments From Federal Sources	(8,090)	(61,706)
Subtotal	<u>\$ 12,296,837</u>	<u>\$ 11,412,709</u>
Obligated Balance, Net - End of Period		
Unpaid Obligations	12,395,142	11,502,924
Less: Uncollected Customer Payments From Federal Sources	(98,305)	(90,215)
Total Unpaid Obligated Balance, Net - End of Period (Note 2)	<u>\$ 12,296,837</u>	<u>\$ 11,412,709</u>
<b>Net Outlays</b>		
Gross Outlays	6,873,609	6,063,928
Less: Offsetting Collections	(98,030)	(56,680)
Less: Distributed Offsetting Receipts	(55,459)	(2,091)
<b>Net Outlays</b>	<b>\$ <u>6,720,120</u></b>	<b>\$ <u>6,005,157</u></b>

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

## **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 policymaking National Science Board (NSB). The NSB, composed of 25 members, represents a cross-section of American leaders in science and engineering research and education, who are appointed by the President for 6-year terms. The NSF Director is an ex-officio member of the NSB.

#### ***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 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 (U.S. 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.

#### ***C. Basis of Accounting***

The accompanying financial statements have been prepared in accordance with U.S. GAAP for federal entities using the accrual method of accounting. 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. The accompanying financial statements also include budgetary accounting transactions that ensure compliance with legal constraints and controls over the use of federal funds.

#### ***D. Revenues and Other Financing Sources***

NSF receives the majority of its funding through appropriations contained in the Commerce, Justice, Science, and Related Agencies Appropriations Act. NSF receives annual, multi-year, and no-year appropriations that may be expended, within statutory limits. NSF also receives funding via warrant from a special earmarked receipt account that is reported as H-1B funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies, as well as 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 and excess cash advances to grantees is returned to the Treasury at the end of each fiscal year.

The Consolidated Appropriations Act, 2010 under Public Law 111-117 provided funding for each of NSF's appropriations. In FY 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009 under Public Law 111-5. Note 9 contains additional details on ARRA funding.

Appropriations are recognized as a financing source at the time the related "funded" program or administrative expenditures are incurred. Appropriations are also recognized when used to purchase property, plant, and equipment (PP&E). "Unfunded" liabilities, which result from liabilities not covered by budgetary resources, 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.

Under the general authority of the Foundation, NSF is authorized to accept funds into the NSF Donations Account and to use both U.S. and foreign funds. In accordance with 42 U.S.C. 1862 Section 3 (a)(3), NSF has authority "to foster the interchange of scientific and engineering information among scientists and engineers in the United States and foreign countries" and in 42 U.S.C. 1870 Section 11 (f), NSF is authorized to receive and use funds donated by others. Donations may be received from foreign governments, private companies, academic institutions, nonprofit foundations, and individuals. These funds must be donated without restriction other than that they be used in furtherance of one or more of the general purposes of the Foundation. Funds are made available for obligations as necessary to support NSF programs.

#### ***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 nonappropriated funding sources from donations and undeposited collections.

#### ***F. Accounts Receivable, Net***

Accounts Receivable consists of amounts due from governmental agencies, private organizations, and individuals. Additionally, NSF has the right to conduct cost incurred audits on its contractors to verify billed amounts. These audits may result in monies owed back to NSF. Upon resolution of the amount owed by the contractor to NSF, a receivable is recorded.

NSF establishes an allowance for loss on accounts receivable from nonfederal sources that are deemed uncollectible but regards amounts due from other federal agencies as fully collectible. NSF analyzes each account independently to assess collectability and the need for an offsetting allowance or write-off. NSF writes off delinquent debt from nonfederal sources that is more than 2 years old.

#### ***G. Advances***

Advances consist of advances to grantees, contractors, and federal agencies. Advance payments are made to grant recipients so that recipients may incur expenditures 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. Advances to contractors are payments made in advance of incurring expenditures. Advances to federal agencies are issued when agencies are operating under working capital funds or 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***

NSF capitalizes PP&E with costs exceeding \$25 thousand and useful lives of 2 or more years; items not meeting these criteria are recorded as operating expenses. NSF currently reports capitalized PP&E at original acquisition cost. Assets acquired from the General Services Administration (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.

The PP&E balance consists of Equipment, Software, Software in Development, Aircraft and Satellites, Buildings and Structures, Leasehold Improvements, and Construction-in-Progress (CIP). These balances are comprised of PP&E maintained in-house by NSF to support operations and PP&E under the U.S. Antarctic Program (USAP). The majority of USAP property is currently under the custodial responsibility of the prime NSF contractor for the program.

Costs incurred to construct buildings and structures are accumulated and tracked as construction in progress. At 75 percent completion of construction, an onsite conditional occupancy inspection is performed to inspect for compliance to the approved plans, design, specifications, and changes. Items that pertain to the safety and health of any future occupants of the facility must be corrected before a conditional occupancy is granted and the facility occupied. When conditional occupancy is granted, the completed project is transferred from CIP to real property or capital equipment and depreciated over the respective useful life of the asset.

Depreciation expense is calculated using the straight line half-year convention. The economic useful 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 or 15 years	Generators, Department of Defense equipment
20 years	Movable buildings (e.g. trailers)

#### Aircraft and Satellites

7 years	Aircraft, aircraft conversions, and satellites
---------	--

#### Buildings and Structures

31.5 years	Buildings and structures placed in service prior to 1994
39 years	Buildings and structures placed in service after 1993

#### Leasehold Improvements

The NSF headquarters buildings are leased through 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. Therefore, the cost of the headquarters buildings is not capitalized by NSF.

The cost of leasehold improvements performed by GSA is financed with NSF-appropriated funds. Amortization is calculated using the straight line half-year convention upon transfer from CIP. In FY 2010, leasehold improvements completed during the year were amortized over 3 years, the remaining years on NSF's lease with GSA.

### **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 thousand 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 5-year period using the straight line half-year convention.

*Assets Owned by NSF in the Custody of Other Entities:* NSF awards grants, cooperative agreements, and contracts to various organizations, including colleges and universities, nonprofit organizations, state and local governments, Federally Funded Research and Development Centers (FFRDCs), and private entities. The funds provided may be used in certain cases to purchase or construct 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 of the assets to these entities. NSF's authorizing legislation specifically prohibits the Foundation 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 stipulates 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); 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 SFFAS No. 8, *Supplementary Stewardship Reporting*. Very few entities disclose information on NSF-titled property in their audited financial statements. Therefore, NSF has elected to disclose only the number of entities in possession of NSF-owned property. Entities that separately present the book value of NSF-titled property in their audited financial statements and all FFRDCs are listed in Note 5 along with the book value of the property held.

### **I. Advances From Others**

Advances From Others consist of 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 1K, *Accrued Liabilities – Grants*. The amount to be allocated by Trading Partner is based on a percentage of reimbursable grant expenditures to total grant expenditures.

### **J. Accounts Payable**

Accounts Payable consists of liabilities to federal agencies, commercial vendors, contractors, and disbursements in transit. Accounts payable to federal agencies, commercial vendors, and contractors 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 expenditures to commercial vendors for which invoices have not been received, but goods and services have been delivered and rendered. Accounts payable also consist of disbursements in transit recorded by NSF but not paid by Treasury.

### ***K. Accrued Liabilities—Grants***

#### **General Grant Accrual Methodology**

Prior to FY 2010, NSF estimated the ending cash-on-hand balance in total for its grantees after the accrued grant expenditures had been calculated. Based on a weighted average of 3 years of historical cash on hand data, NSF applied the negative cash on hand rate to the estimated ending cash on hand to determine the amount recorded as a liability. The difference between the total expenditure amount accrued and the liability recorded was used to reduce the advance.

In FY 2010, NSF changed its report presentation methodology by netting advances to grantees and the accrued grant liability. The accrued expenditure is first applied to liquidate the balance of Advances to Grantees. Any remaining accrual is then applied as an accrued grant liability. The change in methodology does not affect the net of Assets and Liabilities on the Balance Sheet, and the FY 2009 presentation was not revised due to immateriality.

#### **Regular Grants**

The total grant liabilities for the year are determined based on an estimate of prior quarter expenditures incurred and cash-on-hand held by the grantees. The majority of NSF's grantees are reimbursed for incurred costs, but due to the timing of the receipt of expenditure reports, grantees draw down funds prior to the recognition of the reimbursement for incurred costs. This timing constraint causes funding to grantees to be recorded as advances. The grant accrual calculation is based on historical trend analyses prepared by NSF. NSF uses a methodology to track the spending patterns by fiscal year and quarter for each of its fund groups. NSF determined that each appropriation and the year of the appropriation have a noted spending pattern. Based on historical information, NSF applies an average percentage rate to the current year grant related obligations for each individual appropriation within a fund group. The calculation provides NSF with the accrued expenditure.

#### **ARRA Grants**

Prior to FY 2009, the first year that American Recovery and Reinvestment Act (ARRA) funds were expended, no ARRA specific historical information existed, so the methodology for calculating the expenditure accrual was based on the similarity of spending trends between the ARRA grants and standard grants. In FY 2010, NSF determined that the ARRA grants' spending patterns differed significantly from that of regular grants. By Presidential and Congressional direction, ARRA funding is meant to be expended as expediently as possible; as a result, NSF changed its accrual for ARRA grant expenditures to accelerate the accrual to match the unique nature of the ARRA grants.

The revised accrual method is based on the average percentage increase in actual ARRA grant expenditures over the cumulative previous quarters of grant activity. As more information and history is accumulated, the accrued expenditures, based on the average percentage increase, will be monitored closely against the actual expenditures to ensure that any need for modification is addressed.

This revised methodology will be used for ARRA grants in the Research and Related Activities (R&RA) and Education and Human Resources (EHR) appropriations. For ARRA related grants in the Major Research Equipment and Facilities Construction (MREFC) appropriation, the Large Facilities Office provides estimated expenditures based on the progress of individual construction projects. The change in the accrual methodology did not materially affect the financial statements.

### ***L. Accrued Liabilities—Contracts and Payroll***

Accrued Liabilities—Contracts and Payroll consist of contract accruals and accrued payroll. The total contracts liabilities for the year are determined based on an estimate of prior quarter expenditures incurred by the three contractors that are funded on an advance basis. Expenditures are estimated for each

contractor by computing an average of the previous four quarters of actual expenditures reported. The accrual increases expenditures and decreases advances for the account. If the estimated accrual amount exceeds total advances, a liability is accrued for the excess. NSF's payroll services are provided by the Department of the Interior's National Business Center. Accrued payroll and benefits relate to services rendered by NSF employees, for which they are not yet paid. At year end, NSF accrues the amount of wages and benefits earned, but not yet paid.

### ***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 Agency Operations and Award Management appropriations will be used for DOL's estimated reimbursement.

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 Agency Operations and Award Management appropriations (AOAM). Sick leave and other types of nonvested leave are expensed as taken.

### ***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 undelivered orders and unobligated balances of 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 represent the net results of NSF's operations since the Foundation's inception.

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

In FY 2010, approximately 16 percent of NSF employees participated in the Civil Service Retirement System (CSRS), to which NSF matches 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 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 Foundation has no liability for future payments to employees under these plans, nor does NSF report CSRS, FERS, 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.

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 is also provided by OPM regarding the full cost of health and life insurance

benefits on the OPM Benefit Administration website <http://www.opm.gov/retire/pubs/bals/2010/10-306.pdf>

***P. Contingencies and Possible Future Costs***

*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 (and the payment amounts can be reasonably estimated) 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.

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 claim becomes probable and amounts can be reasonably estimated, the claim will be recognized.

*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 Foundation'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, including Federally Funded Research and Development Centers (FFRDCs), 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. Agreements with FFRDCs include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event an agreement is not renewed or is terminated.

NSF is obligated to pay termination expenses for FFRDCs in excess of the limitation of funds set forth in the agreements, including any Post Retirement Benefit liabilities, only if funds are appropriated for this specific purpose. Nothing in these agreements can be construed as implying that Congress will appropriate funds to meet the terms of any claims. Although one FFRDC operator has identified these payments as a current obligation of NSF, the termination clause of the agreement clearly states that any obligation for these expenses exists only upon termination of the agreement and is limited to the lesser of available appropriations or \$25 thousand. NSF considers non-renewal or termination of these cooperative agreements only remotely possible. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the cooperative agreement is terminated.

*Environmental Liabilities:* NSF manages the USAP. The Antarctic Conservation Act and its implementing regulations identify the requirements for environmental clean-up in Antarctica. NSF continually monitors the USAP in regards to environmental issues. NSF establishes its environmental liability estimates in accordance with the requirements of the SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and as amended by SFFAS No. 12, *Recognition of Contingent Liabilities*

## Notes to the Principal Financial Statements

September 30, 2010, and 2009

*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*.

While NSF is not legally liable for environmental clean-up costs in the Antarctic, there are occasions when the NSF Office of Polar Programs (OPP) chooses to accept responsibility and commit funds toward clean-up efforts of various sites as resources permit. Those decisions are in no way driven by concerns of probable legal liability for failure to engage in such efforts, but rather, a commitment to environmental stewardship of Antarctic natural resources. Environmental clean-up projects started and completed during the year are reflected in NSF's financial statements as expenses for the current fiscal year. An estimated cost is accrued for approved projects that are anticipated to be performed after the fiscal year end or will take more than one fiscal year to complete.

### *Q. Use of Estimates*

Management has made certain estimates and assumptions when reporting assets, liabilities, revenues, and expenses, and also in the note disclosures. Estimates underlying the accompanying financial statements include accounting for grants, contracts, accounts payable, payroll, and PP&E. Actual results may differ from these estimates, and the difference will be adjusted for and included in the financial statements of the following fiscal year.

### **Note 2. Fund Balance With Treasury**

Fund Balance With Treasury consisted of the following components as of September 30, 2010 and 2009:

(Amounts in Thousands)	2010			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total
Obligated	\$ 11,974,777	\$ 34,174	\$ 287,886	\$ 12,296,837
Unobligated Available	12,451	45,625	47,026	105,102
Unobligated Unavailable	98,304	4	3,124	101,432
Less: Budgetary Non-FBWT	-	(44,683)	-	(44,683)
<b>Total FBWT</b>	<b>\$ 12,085,532</b>	<b>\$ 35,120</b>	<b>\$ 338,036</b>	<b>\$ 12,458,688</b>

(Amounts in Thousands)	2009			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total
Obligated	\$ 11,060,235	\$ 44,414	\$ 308,060	\$ 11,412,709
Unobligated Available	702,435	34,647	50,415	787,497
Unobligated Unavailable	91,938	26	2,204	94,168
Less: Budgetary Non-FBWT	-	(61,305)	-	(61,305)
<b>Total FBWT</b>	<b>\$ 11,854,608</b>	<b>\$ 17,782</b>	<b>\$ 360,679</b>	<b>\$ 12,233,069</b>

The Donations Account includes amounts donated to NSF from all sources. Funds in the Donations Account may be used to further one or more of the general purposes of the Foundation. The donated funds are held as Fund Balance With Treasury (FBWT) or as non-FBWT with budgetary resources, which represent cash held outside of Treasury at commercial banks in interest-bearing accounts. These funds are

## Notes to the Principal Financial Statements

September 30, 2010, and 2009

collateralized up to \$83.2 million by the bank, through the Federal Reserve Bank of St. Louis, in accordance with Treasury Financial Manual Volume 1, Chapter 6-9000. Unobligated Unavailable balances include recoveries of prior year obligations and other unobligated expired funds that are unavailable for new obligations.

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

### Note 3. Advances

#### *Intragovernmental*

As of September 30, 2010 and 2009, Intragovernmental Advances were \$9.8 million and \$19.2 million respectively.

#### *Public*

See Note 1K for additional information describing a change in report presentation methodology for the grant accrual.

(Amounts in Thousands)	2010	2009
Advances to Grantees	\$ -	\$ 26,699
Advances to Contractors	-	13,194
Total Advances to the Public	\$ -	\$ 39,893

### Note 4. General Property, Plant and Equipment, Net

The components of General Property, Plant and Equipment as of September 30, 2010 and 2009 were:

(Amounts in Thousands)	2010		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 131,182	\$ (104,549)	\$ 26,633
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	279,361	(92,201)	187,160
Leasehold Improvements	8,798	(4,904)	3,894
Construction in Progress	33,470	-	33,470
Internal Use Software	7,091	(7,091)	-
Software in Development	25,597	-	25,597
Total PP&E	\$ 623,986	\$ (347,232)	\$ 276,754

## Notes to the Principal Financial Statements

September 30, 2010, and 2009

(Amounts in Thousands)	2009		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 119,427	\$ (99,595)	\$ 19,832
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	278,208	(85,063)	193,145
Leasehold Improvements	7,173	(3,618)	3,555
Construction in Progress	26,326	-	26,326
Internal Use Software	7,091	(6,929)	162
Software in Development	18,369	-	18,369
<b>Total PP&amp;E</b>	<b>\$ 595,081</b>	<b>\$ (333,692)</b>	<b>\$ 261,389</b>

### Note 5. Property, Plant and Equipment in the Custody of Other Entities

As explained in Note 1H, in the Assets Owned by NSF in the Custody of Other Entities section, 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 SFFAS No. 6, *Accounting for Property, Plant and Equipment*. NSF is required to disclose the dollar amount of NSF PP&E held by others in the footnotes based on information contained in the most recently issued audited financial statements of the organization holding the assets.

At September 30, 2010, there were 32 colleges or universities and 33 commercial entities that held property titled to NSF. None of the colleges, universities, or commercial entities reported NSF-titled property separately.

The amount of PP&E owned by NSF but in the custody of an FFRDC is identified in the table below. In some cases, FFRDCs operate on a fiscal year end basis other than September 30. If NSF PP&E is not separately stated on the FFRDC's audited financial statements or the FFRDC is not audited, the related amounts are annotated as Not Available (N/A) in the table.

(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	Amount	Fiscal Year Ending
National Astronomy & Ionosphere Center (Cornell) - NAIC	\$ N/A	6/30
University Corporation for Atmospheric Research - UCAR	164,629	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	N/A	9/30
National Radio Astronomy Observatory - AUI	N/A	9/30

### Note 6. Leases

NSF leases its headquarter buildings under an operating lease with the GSA. The following is a schedule of future minimum lease payments for the headquarters buildings. The current leases are active through FY 2014.

(Amounts in Thousands)

Fiscal Year	Operating Lease Amount
2011	\$ 21,843
2012	22,172
2013	20,716
2014	4,804
Total Minimum Lease Payments	\$ 69,535

In addition to the headquarters buildings, NSF occupies common spaces with other federal agencies overseas through the State Departments International Cooperative Administrative Support Services (ICASS) system. NSF uses ICASS in Beijing, Paris, and Tokyo for residential and nonresidential space. ICASS is a voluntary cost distribution system and the agreement to receive ICASS services is through an annual Memorandum of Understanding (MOU) between NSF and the State Department. Additionally, NSF occupies residential space in Tokyo and office space in Denver, Colorado. The agreement to occupy space in Denver, Colorado, is an annual MOU with the U.S. Department of Commerce and the lease to occupy residential space in Tokyo is a cancellable agreement between the U.S. Government and the lessor. All NSF leases are cancellable and/or for a period not more than a year.

**Note 7. Earmarked Funds**

In FY 1999, Title IV of the American Competitiveness and Workforce Improvement Act of 1998 (P.L. 105-277) established an H-1B Nonimmigrant petitioner account in the General Fund of the U.S. Treasury. Funding is established from fees collected for alien, nonimmigrant status petitions. This law requires that a prescribed percentage of the funds in the account be made available to NSF for the following activities:

- Computer Science, Engineering, and Mathematics Scholarship (CSEMS)
- Grants for Mathematics, Engineering, or Science Enrichment Courses
- Systemic Reform Activities

The H-1B Nonimmigrant Petitioner fees are available to the Director of NSF until expended. The funds may be used for scholarships to low income students, or to carry out a direct or matching grant program to support private and/or public partnerships in K–12 education. The H-1B Fund is set up as a permanent, indefinite appropriation by NSF. These funds are included in the President’s budget. The earmarked funds are accounted for in a separate Treasury Account Fund Symbol (TAFS) and the budgetary resources for the earmarked fund are recorded as Appropriated Earmarked Receipts Transferred In, and reported according to the guidance for earmarked funds in SFFAS No. 27, *Identifying and Reporting Earmarked Funds*.

**Notes to the Principal Financial Statements**

September 30, 2010, and 2009

(Amounts in Thousands)	2010 Earmarked Funds	2009 Earmarked Funds
<b>Balance Sheet as of September 30, 2010 and 2009</b>		
Fund Balance with Treasury	\$ 338,036	\$ 360,679
Advances	-	403
Total Assets	<u>338,036</u>	<u>361,082</u>
Other Liabilities	<u>2,582</u>	<u>5,210</u>
Total Liabilities	<u>2,582</u>	<u>5,210</u>
Cumulative Results of Operations	<u>335,454</u>	<u>355,872</u>
Total Liabilities and Net Position	<u>\$ 338,036</u>	<u>\$ 361,082</u>

**Statement of Net Cost for the Years Ended September 30, 2010 and 2009**

Program Costs	\$ 111,639	\$ 97,425
Less: Earned Revenues	-	-
Net Cost of Operations	<u>\$ 111,639</u>	<u>\$ 97,425</u>

**Statement of Changes in Net Position For the Years Ended September 30, 2010 and 2009**

Net Position Beginning of Period	\$ 355,872	\$ 364,640
Appropriated Earmarked Receipts Transferred In	91,221	88,657
Net Cost of Operation	(111,639)	(97,425)
Change in Net Position	<u>(20,418)</u>	<u>(8,768)</u>
Net Position End of Period	<u>\$ 335,454</u>	<u>\$ 355,872</u>

**Note 8. Statement of Net Cost**

***Major Program Descriptions***

The Statement of Net Cost presents the NSF-wide expenses incurred by the Foundation. The presentation of the NSF's net cost by strategic goal is included in this note. The Statement of Net Cost reflects the Foundation's strategic framework set forth in NSF's strategic plan, *Investing in America's Future: Strategic Plan FY 2006-2011*.

The strategic goals outlined are: Discovery, Learning, and Research Infrastructure. NSF's fourth strategic goal, Stewardship, focuses on NSF's administrative and management activities. In pursuit of its mission, NSF makes investments in Discovery, Learning, and Research Infrastructure. These goals reflect outcomes at the heart of the research enterprise: fostering research that will advance the frontiers of knowledge (Discovery); cultivating a world-class, broadly inclusive science and engineering workforce

and expanding the scientific literacy of all citizens (Learning); and building the nation's research capability through critical investments in advanced instrumentation, facilities, cyberinfrastructure, and experimental tools (Research Infrastructure).

Net costs are presented for the three primary appropriations that fund NSF's programmatic activities (Research and Related Activities, Education and Human Resources, and Major Research Equipment and Facilities Construction) and for donations and earmarked funds that are classified in the Statement of Net Cost and its related footnote as "Costs Not Assigned To Other Programs." Stewardship costs are prorated among them. Stewardship costs include expenditures incurred from the AOAM, NSB, and OIG appropriations. These appropriations support salaries and benefits of persons employed at NSF; general operating expenses, including support of NSF's information systems technology; staff training, audit and OIG activities; and OPM and DOL benefits costs paid on behalf of NSF.

At September 30, 2010, approximately 96 percent of NSF's expenses were directly related to the Discovery, Learning, and Research Infrastructure strategic outcome goals. At September 30, 2009, approximately 95 percent of NSF's expenses were directly related to the Discovery, Learning, and Research Infrastructure strategic outcome goals. Net costs for each strategic goal is determined by allocating total costs by the percentage for which obligations for each strategic outcome goal accounted for total obligations in the current year. All NSF earmarked funds are allocated to the Learning strategic goal. The remaining portion of NSF's expenses relate to the Stewardship strategic goal.

At September 30, 2010 and 2009, costs related to the Stewardship activities totaled \$312.3 million and \$332.6 million, respectively. All Stewardship costs are prorated to the other three strategic goals based on the percentage that each Strategic Goal's expenditures account for the total expenditures of appropriated, trust, and earmarked funds.

In accordance with OMB Circular A-136, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are identified as "federal." All earned revenues are offsetting collections 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. NSF applies a cost recovery fee on other federal entities consistent with applicable legislation and Government Accountability Office decisions. NSF recovers the costs incurred in the management, administration, and oversight of activities authorized and/or funded by interagency agreements where NSF is the performing agency.

**Notes to the Principal Financial Statements**

September 30, 2010, and 2009

***Intragovernmental and Public Costs and Earned Revenue by Strategic Goal***

(Amounts in Thousands)	Federal	2010 Public	Total
<b>Research and Related Activities</b>			
Discovery	\$ 114,507	3,048,494	3,163,001
Learning	29,610	788,296	817,906
Research Infrastructure	68,445	1,822,193	1,890,638
<b>Total Research and Related Activities</b>	<b>212,562</b>	<b>5,658,983</b>	<b>5,871,545</b>
Less: Earned Revenue	(93,667)	-	(93,667)
<b>Net Research and Related Activities</b>	<b>118,895</b>	<b>5,658,983</b>	<b>5,777,878</b>
<b>Education and Human Resources</b>			
Discovery	\$ 2,003	415,717	417,720
Learning	518	107,498	108,016
Research Infrastructure	1,198	248,488	249,686
<b>Total Education and Human Resources</b>	<b>3,719</b>	<b>771,703</b>	<b>775,422</b>
Less: Earned Revenue	(8,859)	-	(8,859)
<b>Net Education and Human Resources</b>	<b>(5,140)</b>	<b>771,703</b>	<b>766,563</b>
<b>Major Research Equipment and Facilities Construction</b>			
Discovery	\$ 3,579	92,761	96,340
Learning	926	23,987	24,913
Research Infrastructure	2,140	55,447	57,587
<b>Total Major Research Equipment and Facilities Construction</b>	<b>6,645</b>	<b>172,195</b>	<b>178,840</b>
Less: Earned Revenue	-	-	-
<b>Net Major Research Equipment and Facilities Construction</b>	<b>6,645</b>	<b>172,195</b>	<b>178,840</b>
<b>Costs Not Assigned To Other Programs</b>			
Discovery	\$ 6	5,305	5,311
Learning	128	115,376	115,504
Research Infrastructure	58	50,952	51,010
<b>Total Costs Not Assigned To Other Programs</b>	<b>192</b>	<b>171,633</b>	<b>171,825</b>
Less: Earned Revenue	-	-	-
<b>Net Costs Not Assigned To Other Programs</b>	<b>192</b>	<b>171,633</b>	<b>171,825</b>
<b>Net Cost of Operations</b>	<b>\$ 120,592</b>	<b>6,774,514</b>	<b>6,895,106</b>

**Notes to the Principal Financial Statements**

September 30, 2010, and 2009

(Amounts in Thousands)		2009	
	Federal	Public	Total
<b>Research and Related Activities</b>			
Discovery	\$ 142,555	2,819,698	2,962,253
Learning	32,990	652,536	685,526
Research Infrastructure	65,787	1,301,252	1,367,039
<b>Total Research and Related Activities</b>	<b>241,332</b>	<b>4,773,486</b>	<b>5,014,818</b>
Less: Earned Revenue	(100,934)	-	(100,934)
<b>Net Research and Related Activities</b>	<b>140,398</b>	<b>4,773,486</b>	<b>4,913,884</b>
<b>Education and Human Resources</b>			
Discovery	\$ 4,018	466,363	470,381
Learning	930	107,926	108,856
Research Infrastructure	1,854	215,220	217,074
<b>Total Education and Human Resources</b>	<b>6,802</b>	<b>789,509</b>	<b>796,311</b>
Less: Earned Revenue	(8,593)	-	(8,593)
<b>Net Education and Human Resources</b>	<b>(1,791)</b>	<b>789,509</b>	<b>787,718</b>
<b>Major Research Equipment and Facilities Construction</b>			
Discovery	\$ 1,353	85,293	86,646
Learning	313	19,739	20,052
Research Infrastructure	624	39,361	39,985
<b>Total Major Research Equipment and Facilities Construction</b>	<b>2,290</b>	<b>144,393</b>	<b>146,683</b>
Less: Earned Revenue	-	-	-
<b>Net Major Research Equipment and Facilities Construction</b>	<b>2,290</b>	<b>144,393</b>	<b>146,683</b>
<b>Costs Not Assigned To Other Programs</b>			
Learning	\$ 353	101,675	102,028
Research Infrastructure	2	52,065	52,067
<b>Total Costs Not Assigned To Other Programs</b>	<b>355</b>	<b>153,740</b>	<b>154,095</b>
Less: Earned Revenue	-	-	-
<b>Net Costs Not Assigned To Other Programs</b>	<b>355</b>	<b>153,740</b>	<b>154,095</b>
<b>Net Cost of Operations</b>	<b>\$ 141,252</b>	<b>5,861,128</b>	<b>6,002,380</b>

**Note 9. American Recovery and Reinvestment Act (ARRA) of 2009**

ARRA provided NSF with two-year funding to the R&RA, EHR, and MREFC accounts in the amount of \$3.0 billion. ARRA also provided NSF with 5-year funding to the OIG in the amount of \$2.0 million for the purpose of audits and oversight of ARRA funds. As of September 30, 2010, and 2009, NSF obligated R&RA, EHR and MREFC ARRA funds in the amount of \$3.0 billion and \$2.4 billion, respectively. As of September 30, 2010, and 2009, NSF obligated OIG ARRA funds in the amount of \$72.3 thousand and \$18.5 thousand, respectively. For details on ARRA disbursements and reporting requirements, visit NSF's Recovery Act website at [www.nsf.gov/recovery](http://www.nsf.gov/recovery).

**Note 10. Permanent Indefinite Appropriations**

NSF maintains permanent indefinite appropriations for R&RA, MREFC, and EHR. The R&RA appropriation is used for polar research and operations support and for reimbursement to other federal agencies for operational and science support and logistical and other related activities for the USAP. In FY 2010 and FY 2009 the permanent indefinite appropriations for R&RA were \$452.7 million and \$472.2 million respectively, and are reported as current year transfers from the annual R&RA appropriation.

The MREFC appropriation supports the procurement and construction of unique national research platforms and major research equipment. In FY 2010 and FY 2009, the permanent indefinite appropriations for MREFC were \$117.3 million and \$152.0 million, respectively.

The EHR appropriation is used to carry out science and engineering education and human resources programs and activities. In FY 2010 and FY 2009, the permanent indefinite appropriations for EHR were \$87.0 million and \$55.0 million, respectively, and are reported as current year transfers from the annual EHR appropriation.

**Note 11. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, requires direct and reimbursable obligations be reported as Category A, Category B, or Exempt from Apportionment. In FY 2010 and FY 2009, NSF's SF-132, *Apportionment and Reapportionment Schedule*, apportions all obligations incurred under Category B which is by activity, project, or object. In FY 2010 and FY 2009, direct obligations amounted to \$7.7 billion and \$9.0 billion, respectively, and reimbursable obligations amounted to \$108.5 million and \$119.3 million, respectively.

**Note 12. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government**

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President's Budget). However, the President's Budget that will include FY 2010 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of FY 2011 and can be found on the OMB website at <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2009 SBR and the related President's Budget are shown in a table below for Budgetary Resources, Obligations Incurred, Unobligated Balance—Unavailable, and any related differences. The differences reported are due to differing reporting requirements for expired and

## Notes to the Principal Financial Statements

September 30, 2010, and 2009

unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

(Amounts in Thousands)	2009		
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable
Combined Statement of Budgetary Resources	\$ 10,022,609	\$ 9,140,944	\$ 94,168
Budget of the U.S. Government	\$ 9,926,803	\$ 9,135,866	\$ 3,440
Difference	\$ 95,806	\$ 5,078	\$ 90,728

### Note 13. Undelivered Orders at the End of the Period

In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, the amount of budgetary resources obligated for undelivered orders for the periods ended September 30, 2010, and 2009, amounted to \$11.9 billion and \$11.1 billion, respectively.

### Note 14. Related Party Transactions

NSB members may be affiliated with institutions that are eligible to receive grants and awards from NSF. NSB does not review all NSF award actions; however the following require NSB approval:

- Proposed awards, Requests for Proposals (RFPs), and solicitations that meet or exceed a threshold where the average annual award amount is 1 percent or more of the awarding Directorate's prior year plan or \$3.0 million, whichever is greater.
- New programs that represent a substantial investment of program resources, involve sensitive political or policy issues, or are to be funded as an ongoing Foundation-wide activity.
- Major construction projects.

The Director's Review Board (DRB) reviews proposed actions for evaluation adequacy and documentation and compliance with Foundation policies, procedures and strategies. Items requiring DRB action include large awards and RFPs that meet or exceed a threshold of 2.5 percent of the prior year Division or Subactivity Plan. In addition, the DRB reviews all items requiring NSB action as well as NSB information items prior to submission.

Per NSF policy, employees and NSB members may not participate in reviewing applications that involve organizations in which they have a financial interest. However, NSF may fund awards meeting the above NSB and DRB requirements to institutions affiliated with NSB members, and these transactions are being disclosed as Related Party.

In FY 2010, the DRB approved two Related Party awards totaling a not to exceed amount of \$49.9 million, neither of which required NSB review. In FY 2009, the DRB approved three Related Party awards totaling a not to exceed amount of \$132.5 million, of which one for \$105.0 million was also approved by the NSB.

**Notes to the Principal Financial Statements**

September 30, 2010, and 2009

**Note 15. Reconciliation of Net Cost of Operations to Budget**

(Amounts in Thousands)

	2010	2009
<b>Resources Used To Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 7,823,982	\$ 9,140,944
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(164,274)</u>	<u>(180,499)</u>
Obligations Net of Offsetting Collections and Recoveries	7,659,708	8,960,445
Less: Offsetting Receipts	<u>(55,459)</u>	<u>(2,091)</u>
Net Obligations	7,604,249	8,958,354
Other Resources		
Imputed Financing	13,066	10,149
Other Resources	<u>291</u>	<u>(704)</u>
Net Other Resources Used to Finance Activities	13,357	9,445
<b>Total Resources Used to Finance Activities</b>	<b>7,617,606</b>	<b>8,967,799</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(763,350)	(2,977,516)
Resources that Fund Expenses Recognized in Prior Periods	(20)	44
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	55,459	2,091
Resources that Finance the Acquisition of Assets	<u>(29,673)</u>	<u>(12,120)</u>
Other Resources or Adjustments to Net Obligated Resources that Net Cost of Operations	<u>(737,584)</u>	<u>(2,987,501)</u>
<b>Total Resources Used to Finance Net Cost of Operations</b>	<b>6,880,022</b>	<b>5,980,298</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods		
Other	591	1,548
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>591</u>	<u>1,548</u>
Components Not Requiring or Generating Resources		
Depreciation and Amortization	14,920	19,590
Other	(427)	944
Total Components of Net Cost of Operations that will not Require or Generate Resources	<u>14,493</u>	<u>20,534</u>
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>	<b>15,084</b>	<b>22,082</b>
<b>Net Cost of Operations</b>	<b>\$ <u>6,895,106</u></b>	<b>\$ <u>6,002,380</u></b>

**Required Supplementary Stewardship Information**

**Stewardship Investments**

**For the Years Ended September 30, 2010 and 2009**

**Required Supplementary Stewardship Information**

September 30, 2010 and 2009

**Stewardship Investments  
Research and Human Capital**

(Dollar Amounts in Thousands)

**Research and Human Capital Activities**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Basic Research	\$ 5,249,579	4,413,407	4,449,062	4,195,444	3,682,266
Applied Research	416,008	498,544	409,516	432,820	339,757
Education and Training	1,019,776	867,333	911,369	808,642	1,378,472
Non-Investing Activities	312,269	332,623	283,245	275,993	321,085
<b>Total Research &amp; Human Capital Activities</b>	<u>\$ 6,997,632</u>	<u>\$ 6,111,907</u>	<u>\$ 6,053,192</u>	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>

**Inputs, Outputs and/or Outcomes**

**Research and Human Capital Activities**

Investments In:

Universities	\$ 5,103,835	\$ 4,340,871	\$ 4,189,050	\$ 4,016,101	\$ 3,994,682
Industry	286,419	253,114	251,695	208,696	199,523
Federal Agencies	203,635	219,367	256,186	203,759	221,002
Small Business	268,697	209,343	224,793	220,602	218,334
Federally Funded R&D Centers	246,217	232,319	229,259	335,731	299,802
Non-Profit Organizations	408,441	381,882	444,236	421,775	428,648
Other	480,388	475,011	457,973	306,235	359,589
	<u>\$ 6,997,632</u>	<u>\$ 6,111,907</u>	<u>\$ 6,053,192</u>	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>

Support To:

Scientists	\$ 568,140	\$ 695,389	\$ 512,147	\$ 496,431	\$ 473,457
Postdoctoral Programs	188,665	252,639	164,519	163,896	158,528
Graduate Students	602,990	933,063	615,621	585,308	544,513
	<u>\$ 1,359,795</u>	<u>\$ 1,881,091</u>	<u>\$ 1,292,287</u>	<u>\$ 1,245,635</u>	<u>\$ 1,176,498</u>

**Outputs & Outcomes:**

Number of:

Awards Actions	24,000	28,000	23,000	23,000	22,000
Senior Researchers	55,000	54,000	43,000	41,000	32,000
Other Professionals	15,000	15,000	12,000	13,000	11,000
Postdoctoral Associates	7,000	8,000	6,000	6,000	5,000
Graduate Students	40,000	54,000	37,000	35,000	26,000
Undergraduate Students	34,000	33,000	24,000	23,000	27,000
K-12 Students	59,000	14,000	13,000	11,000	8,000
K-12 Teachers	85,000	63,000	62,000	61,000	59,000

NSF's mission is to support basic scientific research and research fundamental to the engineering process as well as science and engineering education programs. NSF's Stewardship Investments fall principally into the categories of Research and Human Capital. For expenses incurred under the Research category, the majority of NSF funding is devoted to basic research, with a relatively small share going to applied research. This funding supports both the conduct of research and the necessary supporting infrastructure, including state-of-the-art instrumentation, equipment, computing resources, and multi-user facilities such as digital libraries, observatories, and research vessels and aircraft. Basic and applied research expenses are determined by prorating the program costs of NSF's strategic goals on Research Infrastructure and Discovery reported on the Statement of Net Cost. The proration uses the basic and applied research percentages of total estimated research and development obligations reported in the current year Budget Request to OMB. The actual numbers are not available until later in the following fiscal year. Education and Training costs equate to NSF's third strategic goal, Learning, and the costs related to noninvesting activities reflect the fourth strategic goal, Stewardship.

The data provided for scientists, postdoctoral associates, and graduate students are obtained from NSF's proposal system and is information reported by each Principal Investigator. The number of award actions are actual values from NSF's Enterprise Information System. The remaining outputs and outcomes are estimates of the total FY 2010 amounts obtained annually from the NSF Directorates. These estimates are reported in the annual Budget Request to OMB.

NSF's Human Capital investments focus principally on education and training, toward a goal of creating a diverse, internationally competitive, and globally engaged workforce of scientists, engineers, and well-prepared citizens. NSF supports activities to improve formal and informal science, mathematics, engineering, and technology education at all levels, as well as public science literacy projects that engage people of all ages in life-long learning.

**Required Supplementary Information**

**Deferred Maintenance**

**For the Years Ended September 30, 2010 and 2009**

## **Deferred Maintenance**

NSF performs condition assessment surveys in accordance with FASAB Standards No. 6 and No. 14 for capitalized PP&E to determine if any maintenance is needed to keep an asset in an acceptable condition or restore an asset to a specific level of performance. NSF considers deferred maintenance to be any maintenance that is not performed on schedule, unless it is determined from the condition of the asset that scheduled maintenance does not have to be performed. Deferred maintenance also includes any other type of maintenance that, if not performed, would render the PP&E nonoperational. Circumstances such as nonavailability of parts or funding are considered reasons for deferring maintenance.

NSF considered whether any scheduled maintenance necessary to keep fixed assets of the agency in an acceptable condition was deferred at the end of the period for fiscal years 2010 and 2009. Assets deemed to be in excellent, good, or fair condition are considered to be in acceptable condition. Assets in poor condition are in unacceptable condition and the deferred maintenance required to get them to an acceptable condition are reported. NSF determines the condition of an asset in accordance with standards comparable to those used in the private industry. Due to the environment and remote location of Antarctica, all deferred maintenance on assets in poor condition is considered critical in order to maintain operational status.

At September 30, 2010, NSF determined that scheduled maintenance on two items of Antarctic capital equipment in poor condition was not completed and was deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$43.0 thousand. The items are heavy mobile equipment, are considered critical to NSF operations, and are estimated to require \$50.7 thousand in maintenance.

At September 30, 2009, NSF determined that scheduled maintenance on seven items of Antarctic capital equipment in poor condition were not completed and were deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$26.5 thousand. The items included light and heavy mobile equipment. All items were considered critical to NSF operations and were estimated to require \$89.1 thousand in maintenance.

**Required Supplementary Information**  
**Budgetary Resources by Major Budget Accounts**

In the following table, NSF budgetary information for the fiscal years ended September 30, 2010 and 2009, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts. ARRA funds are shown in a separate schedule.

Consolidated Appropriations Act Funds Combining Statement of Budgetary Resources (page 1 of 2)

	<u>2010</u> (Amounts in Thousands)					
	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>SCHEDULE OF BUDGETARY RESOURCES</b>						
Unobligated Balance - Brought Forward, October 1	\$ 111,092	20,107	57,730	5,106	87,292	\$ 281,327
Recoveries of Prior Year Obligations	36,706	12,597	50	3,602	3,127	56,082
Budget Authority						
Appropriation	5,617,920	872,760	117,290	318,540	145,749	7,072,259
Spending Authority from Offsetting Collections						
Earned						
Collected	83,290	11,196	-	5,699	-	100,185
Change in Receivable from Federal Sources	5,499	(2,799)	-	(307)	-	2,393
Change in Unfilled Customer Orders						
Advance Received	2,080	(4,141)	-	(95)	-	(2,156)
Without Advance from Federal Sources	3,864	1,844	-	(11)	-	5,697
Subtotal - Budget Authority	<u>5,712,653</u>	<u>878,860</u>	<u>117,290</u>	<u>323,826</u>	<u>145,749</u>	<u>7,178,378</u>
Nonexpenditure Transfers, Net -						
Anticipated and Actual	(54,000)	-	-	-	-	(54,000)
Permanently Not Available	(22,744)	(7,672)	-	(3,266)	-	(33,682)
<b>Total Budgetary Resources</b>	<b><u>\$ 5,783,707</u></b>	<b><u>903,892</u></b>	<b><u>175,070</u></b>	<b><u>329,268</u></b>	<b><u>236,168</u></b>	<b><u>\$ 7,428,105</u></b>
<b>Status of Budgetary Resources</b>						
Obligations Incurred						
Direct	\$ 5,616,384	872,788	165,898	319,849	140,389	\$ 7,115,308
Reimbursable	97,010	6,203	-	5,239	-	108,452
Total Obligations Incurred	<u>5,713,394</u>	<u>878,991</u>	<u>165,898</u>	<u>325,088</u>	<u>140,389</u>	<u>7,223,760</u>
Unobligated Balance - Apportioned	967	56	9,169	332	92,651	103,175
Unobligated Balance - Not Available	69,346	24,845	3	3,848	3,128	101,170
<b>Total Status Of Budgetary Resources</b>	<b><u>\$ 5,783,707</u></b>	<b><u>903,892</u></b>	<b><u>175,070</u></b>	<b><u>329,268</u></b>	<b><u>236,168</u></b>	<b><u>\$ 7,428,105</u></b>

**Consolidated Appropriations Act Funds Combining Statement of Budgetary Resources (page 2 of 2)**

	<u>2010</u>					
	(Amounts in Thousands)					
	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>Change in Obligated Balances</b>						
Obligated Balance, Net						
Unpaid Obligations - Brought forward,						
October 1	7,102,642	1,407,920	188,101	76,948	352,475	9,128,086
Less: Uncollected Customer Payments from						
Federal Sources Brought Forward, October 1	(81,461)	(8,043)	-	(711)	-	(90,215)
Total Unpaid Obligated Balance, Net	<u>7,021,181</u>	<u>1,399,877</u>	<u>188,101</u>	<u>76,237</u>	<u>352,475</u>	<u>9,037,871</u>
Obligations Incurred	5,713,391	878,992	165,898	325,089	140,390	7,223,760
Less: Gross Outlays	(4,938,052)	(760,532)	(121,733)	(314,795)	(167,677)	(6,302,789)
Less: Recoveries of Prior Year Unpaid						
Obligations, Actual	(36,706)	(12,597)	(50)	(3,601)	(3,128)	(56,082)
Change in Uncollected Customer Payments						
from Federal Sources	(9,362)	955	-	317	-	(8,090)
Subtotal	<u>\$ 7,750,452</u>	<u>1,506,695</u>	<u>232,216</u>	<u>83,247</u>	<u>322,060</u>	<u>\$ 9,894,670</u>
Obligated Balance, Net - End of Period						
Unpaid Obligations	7,841,275	1,513,783	232,216	83,641	322,060	9,992,975
Less: Uncollected Customer						
Payments from Federal Sources	(90,823)	(7,088)	-	(394)	-	(98,305)
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 7,750,452</u>	<u>1,506,695</u>	<u>232,216</u>	<u>83,247</u>	<u>322,060</u>	<u>\$ 9,894,670</u>
<b>Net Outlays</b>						
Gross Outlays	4,938,052	760,532	121,733	314,795	167,677	6,302,789
Less: Offsetting Collections	(85,371)	(7,055)	-	(5,604)	-	(98,030)
Less: Distributed Offsetting Receipts	-	-	-	-	(55,459)	(55,459)
<b>Net Outlays</b>	<u>\$ 4,852,681</u>	<u>753,477</u>	<u>121,733</u>	<u>309,191</u>	<u>112,218</u>	<u>\$ 6,149,300</u>

ARRA Funds Combining Statement of Budgetary Resources (page 1 of 2)

2010  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Budgetary Resources</b>					
Unobligated Balance - Brought Forward, October 1	\$ 437,356	15,000	146,000	1,982	\$ 600,338
Recoveries of Prior Year Obligations	2,054	19	-	-	2,073
Budget Authority					
Appropriation	-	-	-	-	-
Spending Authority from Offsetting Collections					
Earned					
Collected	-	-	-	-	-
Change in Receivable from Federal Sources	-	-	-	-	-
Change in Unfilled Customer Orders					
Advance Received	-	-	-	-	-
Without Advance from Federal Sources	-	-	-	-	-
Subtotal - Budget Authority	-	-	-	-	-
Nonexpenditure Transfers, Net -					
Anticipated and Actual	-	-	-	-	-
Permanently Not Available	-	-	-	-	-
<b>Total Budgetary Resources</b>	<b>\$ 439,410</b>	<b>15,019</b>	<b>146,000</b>	<b>1,982</b>	<b>\$ 602,411</b>
<b>Status of Budgetary Resources</b>					
Obligations Incurred					
Direct	\$ 439,167	15,000	146,000	55	\$ 600,222
Reimbursable	-	-	-	-	-
Total Obligations Incurred	439,167	15,000	146,000	55	600,222
Unobligated Balance - Apportioned	-	-	-	1,927	1,927
Unobligated Balance - Not Available	243	19	-	-	262
<b>Total Status Of Budgetary Resources</b>	<b>\$ 439,410</b>	<b>15,019</b>	<b>146,000</b>	<b>1,982</b>	<b>\$ 602,411</b>

ARRA Funds Combining Statement of Budgetary Resources (page 2 of 2)

	<u>2010</u>				
	(Amounts in Thousands)				
	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Change in Obligated Balances</b>					
Obligated Balance, Net					
Unpaid Obligations - Brought forward, October 1	2,035,860	84,977	254,000	1	2,374,838
Less: Uncollected Customer Payments from Federal Sources Brought Forward, October 1	-	-	-	-	-
Total Unpaid Obligated Balance, Net	2,035,860	84,977	254,000	1	2,374,838
Obligations Incurred	439,167	15,000	146,000	55	600,222
Less: Gross Outlays	(528,468)	(6,954)	(35,342)	(56)	(570,820)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(2,055)	(18)	-	-	(2,073)
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Subtotal	\$ 1,944,504	93,005	364,658	-	\$ 2,402,167
Obligated Balance, Net - End of Period					
Unpaid Obligations	1,944,504	93,005	364,658	-	2,402,167
Less: Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Total Unpaid Obligated Balance, Net - End of Period	\$ 1,944,504	93,005	364,658	-	\$ 2,402,167
<b>Net Outlays</b>					
Gross Outlays	528,468	6,954	35,342	56	570,820
Less: Offsetting Collections	-	-	-	-	-
Less: Distributed Offsetting Receipts	-	-	-	-	-
<b>Net Outlays</b>	<b>\$ 528,468</b>	<b>6,954</b>	<b>35,342</b>	<b>56</b>	<b>\$ 570,820</b>

Omnibus Funds Combining Statement of Budgetary Resources (page 1 of 2)

2009  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>Budgetary Resources</b>						
Unobligated Balance - Brought Forward, October 1	\$ 57,084	18,855	66,433	6,342	94,856	\$ 243,570
Recoveries of Prior Year Obligations	44,163	12,953	43	2,725	2,229	62,113
Budget Authority						
Appropriation	5,183,100	845,260	152,010	310,030	136,081	6,626,481
Spending Authority from Offsetting Collections:						
Earned						
Collected	95,864	8,582	-	5,106	9	109,561
Change in Receivable from Federal Sources	37	(414)	-	446	-	69
Change in Unfilled Customer Orders						
Advance Received	(50,588)	(2,293)	-	-	-	(52,881)
Without Advance from Federal Sources	58,450	3,191	-	(4)	-	61,637
Subtotal - Budget Authority	5,286,863	854,326	152,010	315,578	136,090	6,744,867
Nonexpenditure Transfers, Net -						
Anticipated and Actual	3,066	-	-	148	-	3,214
Permanently Not Available	(20,857)	(9,296)	-	(3,002)	-	(33,155)
<b>Total Budgetary Resources</b>	<b>\$ 5,370,319</b>	<b>876,838</b>	<b>218,486</b>	<b>321,791</b>	<b>233,175</b>	<b>\$ 7,020,609</b>
<b>Status of Budgetary Resources</b>						
Obligations Incurred						
Direct	\$ 5,154,513	847,670	160,756	311,187	145,883	\$ 6,620,009
Reimbursable	104,714	9,061	-	5,498	-	119,273
Total Obligations Incurred	5,259,227	856,731	160,756	316,685	145,883	6,739,282
Unobligated Balance - Apportioned	44,290	23	57,710	74	85,062	187,159
Unobligated Balance - Not Available	66,802	20,084	20	5,032	2,230	94,168
<b>Total Status of Budgetary Resources</b>	<b>\$ 5,370,319</b>	<b>876,838</b>	<b>218,486</b>	<b>321,791</b>	<b>233,175</b>	<b>\$ 7,020,609</b>

**Omnibus Funds Combining Statement of Budgetary Resources (page 2 of 2)**

	<u>2009</u>					
	(Amounts in Thousands)					
	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>Change in Obligated Balances</b>						
Obligated Balance, Net						
Unpaid Obligations - Brought forward,						
October 1	6,558,083	1,322,440	176,703	75,722	355,073	8,488,021
Less: Uncollected Customer Payments from						
Federal Sources Brought Forward, October 1	(22,973)	(5,266)	-	(270)	-	(28,509)
Total Unpaid Obligated Balance, Net	<u>6,535,110</u>	<u>1,317,174</u>	<u>176,703</u>	<u>75,452</u>	<u>355,073</u>	<u>8,459,512</u>
Obligations Incurred	5,259,228	856,732	160,755	316,683	145,884	6,739,282
Less: Gross Outlays	(4,670,507)	(758,299)	(149,314)	(312,731)	(146,253)	(6,037,104)
Less: Recoveries of Prior Year Unpaid						
Obligations, Actual	(44,163)	(12,953)	(43)	(2,725)	(2,229)	(62,113)
Change in Uncollected Customer Payments						
from Federal Sources	(58,487)	(2,777)	-	(442)	-	(61,706)
Subtotal	<u>\$ 7,021,181</u>	<u>1,399,877</u>	<u>188,101</u>	<u>76,237</u>	<u>352,475</u>	<u>\$ 9,037,871</u>
Obligated Balance, Net - End of Period						
Unpaid Obligations	7,102,642	1,407,920	188,101	76,948	352,475	9,128,086
Less: Uncollected Customer						
Payments from Federal Sources	(81,461)	(8,043)	-	(711)	-	(90,215)
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 7,021,181</u>	<u>1,399,877</u>	<u>188,101</u>	<u>76,237</u>	<u>352,475</u>	<u>\$ 9,037,871</u>
<b>Net Outlays</b>						
Gross Outlays	4,670,507	758,299	149,314	312,731	146,253	6,037,104
Less: Offsetting Collections	(45,276)	(6,289)	-	(5,106)	(9)	(56,680)
Less: Distributed Offsetting Receipts	-	-	-	-	(2,091)	(2,091)
<b>Net Outlays</b>	<u>\$ 4,625,231</u>	<u>752,010</u>	<u>149,314</u>	<u>307,625</u>	<u>144,153</u>	<u>\$ 5,978,333</u>

ARRA Funds Combining Statement of Budgetary Resources (page 1 of 2)

2009  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Budgetary Resources</b>					
Unobligated Balance - Brought Forward, October 1	\$ -	-	-	-	\$ -
Recoveries of Prior Year Obligations	-	-	-	-	-
Budget Authority					
Appropriation	2,500,000	100,000	400,000	2,000	3,002,000
Spending Authority from Offsetting Collections					
Earned					
Collected	-	-	-	-	-
Change in Receivable from Federal Sources	-	-	-	-	-
Change in Unfilled Customer Orders					
Advance Received	-	-	-	-	-
Without Advance from Federal Sources	-	-	-	-	-
Subtotal - Budget Authority	2,500,000	100,000	400,000	2,000	3,002,000
Nonexpenditure Transfers, Net - Anticipated and Actual	-	-	-	-	-
Permanantly Not Available	-	-	-	-	-
<b>Total Budgetary Resources</b>	<b>\$ 2,500,000</b>	<b>100,000</b>	<b>400,000</b>	<b>2,000</b>	<b>\$ 3,002,000</b>
<b>Status of Budgetary Resources</b>					
Obligations Incurred					
Direct	\$ 2,062,644	85,000	254,000	18	\$ 2,401,662
Reimbursable	-	-	-	-	-
Total Obligations Incurred	2,062,644	85,000	254,000	18	2,401,662
Unobligated Balance - Apportioned	437,356	15,000	146,000	1,982	600,338
Unobligated Balance - Not Available	-	-	-	-	-
<b>Total Status Of Budgetary Resources</b>	<b>\$ 2,500,000</b>	<b>100,000</b>	<b>400,000</b>	<b>2,000</b>	<b>\$ 3,002,000</b>

ARRA Funds Combining Statement of Budgetary Resources (page 2 of 2)

2009  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Change in Obligated Balances</b>					
Obligated Balance, Net					
Unpaid Obligations - Brought forward, October 1	-	-	-	-	-
Less: Uncollected Customer Payments from Federal Sources Brought Forward, October 1	-	-	-	-	-
Total Unpaid Obligated Balance, Net	-	-	-	-	-
Obligations Incurred	2,062,644	85,000	254,000	18	2,401,662
Less: Gross Outlays	(26,784)	(23)	-	(17)	(26,824)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	-	-	-	-
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Subtotal	\$ 2,035,860	84,977	254,000	1	\$ 2,374,838
Obligated Balance, Net - End of Period					
Unpaid Obligations	2,035,860	84,977	254,000	1	2,374,838
Less: Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Total Unpaid Obligated Balance, Net - End of Period	\$ 2,035,860	84,977	254,000	1	\$ 2,374,838
<b>Net Outlays</b>					
Gross Outlays	26,784	23	-	17	26,824
Less: Offsetting Collections	-	-	-	-	-
Less: Distributed Offsetting Receipts	-	-	-	-	-
<b>Net Outlays</b>	<b>\$ 26,784</b>	<b>23</b>	<b>-</b>	<b>17</b>	<b>\$ 26,824</b>