

The logo for INSE (Institut National Supérieur de l'Éducation) is centered in the upper half of the page. It features the letters 'INSE' in a large, bold, serif font. Behind the letters is a circular emblem containing a gear-like pattern. The entire logo is rendered in a dark blue color that blends with the background.

INSE

Chapter 2

Financials



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



Credit: Sandy Schaeffer

Fiscal year (FY) 2014 was a year of unprecedented challenges, beginning with a disruptive 16-day government shutdown. Despite these challenges, significant accomplishments were achieved.

I am pleased to report that for FY 2014 the National Science Foundation received its 17th consecutive unmodified audit opinion, affirming that the agency's financial statements for the year ended September 30, 2014, were presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. The Independent Auditor's Report noted no material weaknesses but included two significant deficiencies. First, the prior year significant deficiency related to the monitoring of construction-type agreements was repeated. NSF will continue to work to strengthen controls for awarding and overseeing construction-type cooperative

agreements, exercising enhanced end-to-end cost surveillance in response to Office of Inspector General concerns. The second significant deficiency is related to NSF's methodology for estimating its grant accrual. NSF's new grant payment system resulted in timelier grant expenditures at year-end. With this new approach, however, we can no longer rely on the historical data used in previous years to develop these estimates. This has required developing a new methodology to estimate grant expenditures through the end of the year and validate the reasonableness of assumptions used to develop those estimates.

Several important management accomplishments in FY 2014 will help ensure NSF continues its leadership in stewardship and federal financial management for years to come.

- In October 2014, NSF successfully implemented iTRAK, a financial management solution that replaces NSF's over 25-year-old custom legacy Financial Accounting System (FAS) with a cloud-based commercial off-the-shelf Oracle Federal Financials system hosted in a shared service environment. The 4-year planning and 2-year implementation period was a major collaborative effort involving financial, IT, budget, and program staff and senior management from across the agency. Ultimately, the iTRAK initiative came in on schedule and within budget. The transition to a new financial management system required the agency to close out financial records in mid-September and postpone commencement of the new FY 2015 fiscal year until mid-October. I would like to express my appreciation to the Office of Management and Budget (OMB) and the Department of Treasury, whose agreement to extend NSF's financial reporting and audit schedule was crucial to the success of bringing the new system online smoothly and in a timely manner. Among the benefits provided by iTRAK will be an increased ability to comply with reporting requirements. A more detailed discussion of NSF's new financial management system can be found in Chapter 1, "Financial System Strategy and Framework."
- In NSF's capacity as the first rotating member on the Council on Financial Assistance Reform (COFAR), NSF played a key leadership role in the development and implementation of OMB's new *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance will affect awards that NSF and all other federal grant-making agencies make on or after December 26, 2014. As an integral member of the interagency COFAR group, NSF represented the perspective of other smaller agencies that administer grants and cooperative agreements, as well as that of our stakeholder

communities. This consolidation of eight separate OMB circulars into one set of guidance represents the most significant reform of federal grants policy in decades. The Uniform Guidance (2 CFR Part 200) streamlines the federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. The new format is designed to improve the clarity and accessibility of information, ease the administrative burden associated with the administration of federal awards, and strengthen oversight of federal funds to reduce risks of fraud, waste and abuse.

- NSF took substantive steps this year to further strengthen our internal controls for cost management of large facility projects. Policies were issued to ensure that the review of each potential awardee's cost proposal is thoroughly documented and includes a full justification for inclusion of each item of cost in the award amount. Requirements also add enhanced rigor to the agency's process to determine the adequacy of the awardee's accounting system to successfully manage a large facility construction award. Guidance on post-award incurred cost reviews ensures that a risk-based approach is taken that considers factors including the awardee's current accounting controls and recent audits, but also provides minimum standards for reviewing data during performance. These new policies, and additional strengthened procedures planned for FY 2015, will help ensure that NSF continues to meet its stewardship responsibility of ensuring that large facility projects are responsibly managed.
- FY 2014 was NSF's first full year of processing award payments using the Award Cash Management System (ACM\$). Awardee institutions submitted and received payment for more than 785,000 award level disbursements totaling more than \$6.35 billion. ACM\$ has been routinely praised by awardee institutions for its user friendliness, efficiency, and improved access to award financial information. ACM\$ provides both awardees and NSF with almost real-time financial data, thereby generating a more realistic picture of financial activity as it occurs. Looking toward the future, the financial data ACM\$ is generating is leading NSF to explore new approaches to monitoring the financial activity of awards throughout their lifecycle. This has given rise to consideration of more robust award financial lifecycle reviews and the possibility for a more proactive approach to identifying potential financial issues at the award level. Initiatives in the sphere of enhanced award financial information are expected to contribute significantly toward NSF's overall objectives for continual improvements in transparency and accountability of federal funds.

NSF's commitment to accountability reporting, transparency, and good government was recognized for the second consecutive year by the Association of Government Accountants, which awarded NSF's *FY 2013 Performance and Financial Highlights* with a Certificate of Excellence in Member-Centric Reporting. Financial accountability and effective business processes underpin our programmatic activities and are critical to the achievement of the agency's mission. I welcome your feedback on how we can make this report more informative to our stakeholders and readers.

/s/

MARTHA A. RUBENSTEIN


December 15, 2014



National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Suite I-1135, Arlington, Virginia 22230

TO: Dr. France Córdova
Director, National Science Foundation

Dr. Dan E. Arvizu
Chair, National Science Board

FROM: Allison Lerner 
Inspector General, National Science Foundation

DATE: December 13, 2014

SUBJECT: Audit of the National Science Foundation's
Fiscal Years 2014 and 2013 Financial Statements

This memorandum transmits CliftonLarsonAllen LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2014 and 2013.

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), CliftonLarsonAllen LLP (CliftonLarsonAllen), an independent public accounting firm, performed audits of NSF's Fiscal Years 2014 and 2013 financial statements. The contract required that the audits be performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and the United States Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

CliftonLarsonAllen issued an unmodified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, CliftonLarsonAllen did not report any material weaknesses in internal control; however, it did report two significant deficiencies in internal control. One significant deficiency, initially identified in 2011, relates to NSF's monitoring of construction type cooperative agreements. The second significant deficiency relates to NSF's Grant Accrual Accounting Estimation Process. CliftonLarsonAllen also reported that there were no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements it tested, including those relating to the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

NSF management's response, dated December 13, 2014, follows CliftonLarsonAllen's report.

Evaluation of CliftonLarsonAllen'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 CliftonLarsonAllen's approach and planning of the audit;
- Evaluated the qualifications and independence of CliftonLarsonAllen and its auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with NSF management to discuss audit progress, findings, and recommendations;
- Reviewed CliftonLarsonAllen's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 14-02; and
- Coordinated issuance of the audit report.

CliftonLarsonAllen is responsible for the attached Independent Auditor's Report dated December 13, 2014, 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 or on compliance with laws, regulations, contracts and grant agreements.

The OIG appreciates the courtesies and cooperation NSF extended to CliftonLarsonAllen and the 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: Dr. Ruth David, Chair, Audit and Oversight Committee



INDEPENDENT AUDITORS' REPORT

National Science Foundation:
Inspector General
Director

Chair of National Science Board

Report on the Financial Statements

We have audited the accompanying financial statements of the National Science Foundation (NSF), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost and changes in net position, and the statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

NSF management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.) and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITORS' REPORT (Continued)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

We are also responsible for applying certain limited procedures, which are described below, with respect to the Required Supplementary Information (RSI) and other information included with the financial statements.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Science Foundation as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that NSF's Management Discussion and Analysis (MD&A), and other RSI listed in section II of the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the MD&A and other RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As noted in the table of contents sections i, ii, v, section II - Schedule of Spending, and III – Appendices, NSF's Annual Financial Report (AFR) contains a wide range of information other than the required financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This other information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Reports on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NSF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NSF's

INDEPENDENT AUDITORS' REPORT (Continued)

internal control or on management's statement of assurance on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of NSF's internal control or on management's statement of assurance on internal control which is included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NSF's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit A, that we consider to be significant deficiencies.

Report on Compliance

As part of obtaining reasonable assurance about whether NSF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, consistent with our professional responsibilities discussed below.

The results of our tests, exclusive of those required by the Federal Financial Managers Improvement Act (FFMIA) as discussed below, disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 14-02.

Compliance with FFMIA Requirements

Under FFMIA, we are required to report whether the financial management systems used by NSF substantially comply with FFMIA Section 803(a) requirements. To meet this requirement, we performed tests of compliance with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA Section 803(a) requirements disclosed no instances in which NSF's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, or (3) the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring NSF's financial management systems are in substantial

INDEPENDENT AUDITORS' REPORT (Continued)

compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit; (2) testing whether NSF's financial management systems substantially comply with the FFMIA requirements referred to above; and (3) testing compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including FFMIA, and applicable laws and regulations for which OMB Bulletin 14-02 requires testing.

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

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to NSF. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Status of Prior Year's Control Deficiency

Our FY 2013 Independent Auditors' Report dated December 12, 2013 included a significant deficiency entitled *Monitoring of Construction Type Cooperative Agreements*. Recommendation number 2 of that significant deficiency, relating only to the use a contingency fund budgets in Cooperative Agreements, has been closed due to a clarification received from OMB on this matter. However, all other FY 2013 significant deficiency recommendations remain open, and have been repeated in Significant Deficiency number 1 in Exhibit A of this report.

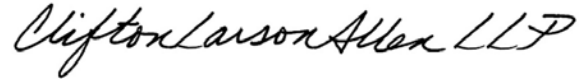
Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of NSF's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NSF's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

INDEPENDENT AUDITORS' REPORT (Continued)

Management's Response to Independent Auditor's Report

Management's response to the findings identified in our report is presented in Exhibit B. We did not audit NSF's response and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Calverton, Maryland
December 13, 2014

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A NATIONAL SCIENCE FOUNDATION Significant Deficiencies September 30, 2014

1. Monitoring of Construction Type Cooperative Agreements

Background and Control Deficiency Criteria:

As of September 30, 2014, NSF had 18 open construction type cooperative agreements (CA) aggregating approximately \$2.1 billion in obligations, which includes approximately \$340 million in contingency funds, representing approximately 16 percent of the total award obligation amount.

Beginning with our fiscal year (FY) 2010 Independent Auditors' Report (Auditor Report), we noted a variety of deficiencies in NSF's internal controls relating to the monitoring of construction type CAs, substantially comprised of deficiencies detailed in NSF Office of Inspector General (OIG) and Defense Contract Audit Agency (DCAA) audit reports. However, agreement on a complete plan of action to resolve these matters had not been achieved as of September 30, 2013.

In FY 2014, some progress was made by NSF in designing procedures to correct certain weaknesses noted by the OIG and DCAA (on behalf of the OIG) pertaining to future awards of CAs. However, some of those procedures were implemented late in the fiscal year and we were unable to validate the effectiveness of such procedures. Also, as confirmed by both our tests and additional CA audits completed by the OIG and DCAA in FY 2014, little progress has been made in addressing the issues concerning current CAs with contingency funding as of September 30, 2014.

Given the substantial disagreement over these issues between the OIG and NSF management, and pursuant to guidelines set forth in the Office of Management and Budget (OMB) Circular A-50 *Audit Follow-Up*, the OIG issued an Escalation Memorandum to the NSF's Audit Follow-up Official (AFO) in May 2014 requesting final resolution of these matters. The Memorandum outlined five recommendations made by the OIG to address the control deficiencies that remain outstanding from the prior years' OIG and DCAA audit reports, and our prior Independent Auditors' Reports. As of the date of our Independent Auditors' Report, NSF's AFO had only partially resolved one of those five OIG recommendations, relating to the use of contingency funds in award budgets.

Accordingly, most of the control deficiency conditions identified in our FY 2013 Audit Report have been repeated in this FY 2014 Audit Report.

Conditions:

A. This section relates to the prior year's described conditions which continue to exist in FY 2014.

1. **DCAA Audits of Construction Type Cooperative Agreements with Contingency Funds**

a) The DCAA cost proposal audits for three projects and the OIG's Report No. 12-2-010 issued in prior years identified grantee proposed costs of \$1.3 billion, which included contingency costs totaling approximately \$234 million. DCAA reported

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit A (Continued)

that documentation was inadequate for \$190 million of that total contingency cost amount. The proposed total cost of approximately \$732 million for two of these projects was also not considered acceptable for negotiating a fair and reasonable price.

DCAA noted the following additional deficiencies during these audits:

- Awardees could draw down contingency funds without advance approval by NSF.
 - Awardee's accounting system and estimating practices were not sufficient to adequately track specific project costs.
- b) DCAA also performed an incurred cost audit for a project involving three CAs to the same awardee, noting the following:
- Awardee's \$218 million in claimed costs did not comply with federal requirements applicable to the CAs. DCAA also reported internal control weaknesses regarding the awardee's change control process, instances where the awardee did not comply with Cost Accounting Standards (CAS) and the awardee's own accounting practices. As a result, DCAA questioned costs of \$2.1 million.
 - Awardee's accounting records did not segregate actual contingency costs from other accumulated costs. For example, the project included a contingency budget of approximately \$44 million; however, actual contingency costs were not accumulated and tracked separately in the accounting records. Therefore, the auditors could not tell specifically how the budgeted contingency costs were expended.
- c) Another audit performed by the NSF OIG, and detailed in its Alert Memo Report dated September 28, 2012, (No. 12-6-001) on *NSF's Management of Cooperative Agreements*, noted similar findings to those included in the DCAA audits referenced above, reiterating concerns about the adequacy of NSF's review of proposed costs, the proposer's financial management capabilities, and NSF's post-award monitoring.

The May 2014 OIG Escalation Memorandum focused on recommendations relating to pre-award and post-award cost surveillance measures as follows:

1. Obtain updated cost estimates and audits of awardee's proposed budget and cost accounting system/practices prior to award for CAs valued at over \$50 million.
2. Remove unallowable contingency from proposed budgets and ensure that internal contingency policies and procedures reflect OMB cost principles.
3. Require annual incurred cost submissions and incurred cost audits for CAs in excess of \$50 million.
4. Require awardees to properly account for contingency funds consistent with their estimates and separately track budgeted versus actual contingency costs; and retain control over funds budgeted for unforeseeable events and release funds only when the awardee demonstrates a bona fide need supported by verifiable cost data.
5. That NSF management, using a risk-based approach, develop end-to-end cost surveillance policies and procedures for its CAs to ensure adequate stewardship

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit A (Continued)

over federal funds. At a minimum, NSF should implement such increased monitoring for its largest CAs valued at more than \$50 million.

Based on clarified guidance from OMB (2 Code of Federal Regulations, Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (issued in December 2013) regarding the conceptual use of contingency funds in award budgets (item # 2 above), NSF's AFO concluded that the OIG recommendation was resolved. We agree with that specific partial resolution that contingency can be budgeted for and included in the award; however, such resolution did not address the amount of unsupported contingency costs that were reported in prior year audits. The AFO's resolution conclusion was made provided that the contingency was estimated using broadly-accepted methodologies and was well documented. The AFO indicated that to ensure that these conditions are met, NSF needs to finalize and implement its proposed new policy *Contingency Development, Use and Management*, which is intended to adequately monitor the development and management of contingency funds in award budgets. Such new policy has not yet been finalized, and we will review it for adequacy during the FY 2015 audit.

Given the problems identified in previous DCAA and OIG audits regarding the lack of adequate supporting documentation for proposed costs including contingency funds, the contingency fund development use and management concept in the Audit Follow-up Official's decision on this matter is critical to the effectiveness of NSF's internal controls going forward over all awarded funds, not just those relating to contingency matters. We will evaluate the effectiveness of this new policy during the FY 2015 financial statements audit. Since the OIG Escalation Memorandum recommendation also discussed the allowability of unsupported contingency costs, which was not addressed by the AFO, we consider this recommendation only partially resolved.

NSF issued some policies and procedures late in the fiscal year to address some of the causes of the above conditions and continues to develop others; however, these conditions identified in prior years remain largely uncorrected at September 30, 2014.

- B.** The following sections describe conditions, identified by both us and the OIG during the FY 2014 audit, that demonstrate that the CA control deficiencies reported in prior years continue to exist.

1. OIG Alert Memo and DCAA Audit Report

Pursuant to a CA established in August 2014, NSF awarded \$468 million (only \$27.5 million was obligated as September 30, 2014) to a non-profit entity for a large construction project. The NSF OIG reviewed this agreement and issued an Alert Memo Report (No. 14-3-002) dated September 30, 2014, concluding that NSF approved the project without sufficient information to determine the reasonableness of the estimated project costs. The OIG also referenced a separate audit report which indicated that the non-profit organization managing this project did not have an effective process for preparing adequate cost proposals.

The NSF OIG issued Audit Report (No.14-1-005) in September 2014, detailing the results of a supplemental audit, initially performed by DCAA in 2011, relating to a large construction project with contingency funding. DCAA has now disclaimed an opinion on the adequacy of the cost proposal due to the significance of the cost

INDEPENDENT AUDITORS' REPORT (Continued)
Exhibit A (Continued)

estimating deficiencies found in the proposal, including unsupported estimates, outdated vendor quotes, and unallowable contingencies.

These FY 2014 OIG Reports are currently going through the audit resolution process with NSF management.

2. Internal Controls for Monitoring Use of Contingency Funds

In addition to the DCAA and OIG audits discussed above, our specific internal control testing procedures performed in FY 2014, which included the examination of several CAs with contingency funds, continue to note the following exceptions:

- a) Awardees can draw on the contingency funds budget without prior NSF approval, if the amount is below an established threshold. Above this established threshold, advance approval is required. However, systematic barriers to prevent an awardee from drawing an amount in excess of the threshold without advance approval were not in place at September 30, 2014. A system control of that nature would reduce the risk of contingency funds being used for unallowable purposes.
- b) NSF's accounting system shows the CA award amount in total without separate identification of the contingency funding portion of such award. NSF relies on information provided by the awardees to track the allocation of the contingency funds to budgeted line items in the award. However, NSF does not require the awardee to track its contingency expenditures and, accordingly, it cannot track the expenditure of contingency funds to ensure that they are in line with the awarded budgeted amounts. This lack of control increases the risk that contingency funds may be used for non-contingent type expenditures or out-of-scope changes, which could therefore be disallowed during an audit.
- c) For certain CAs examined in a previous fiscal year, we noted the following matters that remain uncorrected by NSF in FY 2014:
 - An awardee did not report the allocation of the contingency budget authority to a specific project on a monthly basis as required by NSF policy. This lack of information on how the contingency funds are being spent limits NSF management's ability to assess how and when the contingency funds are being used; and
 - NSF was unable to provide evidence to document that it had approved an awardee's change order process for managing contingency expenditures. A requirement to document NSF's approval of the awardee's change order process for managing contingency expenditures and requests above the stipulated threshold would reduce the risk of funds being disbursed for non-contingent type expenditures, out-of-scope changes, or costs that are unreasonable, unallowable, or unallocable.

NSF continues to address the causes of the above conditions; however, the conditions remain largely uncorrected at September 30, 2014.

In summary, as noted above, the causes of the prior year conditions described in Section A of this Significant Deficiency remain largely uncorrected at September 30, 2014, either due to NSF's continued disagreement with the severity of the conditions, its timeframe for implementation of new procedures to rectify the conditions, or the fact that management has not identified specific corrective actions that would apply to existing CAs.

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit A (Continued)

The unresolved status of the OIG Escalation Memorandum, along with the new OIG Alert Memoranda, DCAA audit reports, and the results of our internal control testing in FY 2014, continue to indicate that there are significant risks relating to the validity of budgeted contingency funds in all CAs, and to the adequacy of NSF's controls over monitoring these CAs in general.

The status of each of the recommendations relating to the repeat conditions noted above and NSF's corrective action are summarized in Exhibit B of this Audit Report.

Recommendations:

NSF has not fully addressed the matters included in the OIG's Escalation Memorandum issued in May 2014. The delay in resolving matters detailed in the Escalation Memorandum has slowed the implementation of changes to NSF's CA award procedures and, accordingly, has hindered its auditors' ability to assess the adequacy of the procedures that NSF has implemented or will implement regarding post-award monitoring and standardized costs analysis guidance.

Accordingly, we recommend the following actions be taken immediately to finally resolve the CA audit findings initially identified in our FY 2010 Audit Report:

1. NSF's Director's Office should work closely with the OIG to quickly resolve the remaining recommendations in the OIG's May 2014 Escalation Memorandum through the audit follow-up process required under OMB Circular A-50, *Audit Follow-up*. Such resolution should include clarifying the FY 2014 resolution conclusion regarding the close out of the second recommendation in the OIG's Escalation Memorandum by addressing the amount of unsupported contingency costs that *were reported* in prior year audits.
2. Finalize NSF's proposed new policy *Contingency Development, Use and Management*, which is intended to adequately monitor the development and management of contingency funds in award budgets.
3. Reform NSF policies, based on cost principles described in OMB's Uniform Guidance (2 CFR, Part 200), relating to grants and CAs, including those relating to budgeted contingency amounts in its awards.
4. Fully implement its corrective action plans, and test the effectiveness of new policies and procedures implemented in late FY 2014 and FY 2015. Such plan should include:
 - a) Revisions to its proposal review process to ensure that the issues raised by DCAA and the OIG in their reports and memos are considered by NSF before accepting an entity's cost proposal as a basis for the issuance of an award/CA;
 - b) Strengthening controls over all CA disbursements, especially with respect to the oversight of draws on contingency funds;
 - c) Ensuring that awardees are required to submit monthly reports showing the allocation of the contingency budget authority to the second level of detail within the project's Work Breakdown Structure;
 - d) Documenting NSF's approval of the awardee's process for managing contingency expenditures and requests above the stipulated threshold; and
 - e) Matters specifically identified in the FY 2014 OIG Audit Reports detailing its review of certain large constructions projects - No.14-1-005 and No. 14-3-002.
5. Revise CAs to require the awardee to track and report such contingency expenditures to NSF to ensure that contingency funds budgeted are properly used for contingent type events.
6. Implement a process to separately track contingency funds within NSF's accounting system.

INDEPENDENT AUDITORS' REPORT (Continued)
Exhibit A (Continued)

2. Grant Accrual Accounting Estimation Process

Background and Criteria:

Accounting principles generally accepted in the U.S. require entities to prepare financial statements on an accrual basis and such principles also require entities to validate assumptions made in determining significant estimates included in those financial statements.

NSF's grant cost is comprised of two components: 1) actual grant expenditures reported by grantees through the draw process and 2) an estimate (accrual) of grantee expenditures incurred, but not yet reported to or drawn (IBNR) from NSF (grant accrued liability – referred to hereafter as IBNR liability). On point with this accrual matter, the Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR 12) "*Accrual Estimates for Grant Programs*" specifically addresses the process for preparing accrual estimates for grant programs.

Prior to FY 2013, NSF based the IBNR liability on historical data reported by grantees on a quarterly basis. At September 30, 2012, NSF estimated the IBNR liability at \$446 million. This estimate was validated by comparing reports submitted by the grantee in the first quarter of FY 2013 to the amount reflected in NSF's financial statements at September 30, 2012.

In June 2013, NSF adopted the use of a new grantee cash request and expenditure reporting system, Award Cash Management Service (ACM\$), which significantly changed the manner and timing by which grantees could draw funds and report expenditures for their awards. Upon implementation of ACM\$, long standing historical data reported by grantees and used prior to FY 2013 for IBNR liability accounting purposes could not be utilized in the same manner, and such information was no longer required to be reported by the grantees going forward. This situation required NSF to begin accumulating grantee payment/expenditure data under ACM\$ to revise its methodology for estimating the IBNR. However, consistent historical grantee spending data under ACM\$ was limited and inconclusive for NSF to use in confidently estimating grantee spending patterns and the IBNR liability for the remainder of fiscal year 2013.

Given the lack of reliable historical spending data at September 30, 2013, NSF estimated the FY 2013 IBNR liability using the average daily ACM\$ draws during the last quarter of the fiscal year for the three business days before the end of September 2013 (tied to the Department of Treasury's year end transaction cut-off period). Such method resulted in an IBNR liability of \$91 million at September 30, 2013. Even though NSF performed some analysis of prior year grantee spending data, it was not sufficient to adequately validate that IBNR liability amount to fully comply with the provisions in FASAB TR12 in FY 2013. Accordingly, through separate analysis of all grantee draw information available during the FY 2013 audit, we determined that the IBNR liability amount should have been higher. However, the increase needed in the IBNR liability on NSF's FY 2013 financial statements was not considered material, and NSF's FY 2013 financial statements were not adjusted.

Statistical sampling has proven useful in sampling large diverse populations, and applying tailored extrapolations directly to those diverse population groups, while only testing a very small percentage of all population units. That tool and certain other financial data available

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit A (Continued)

in FY 2013, were not used by NSF in estimating an IBNR liability at September 30, 2013. Accordingly, at the conclusion of the FY 2013 audit, we recommended that NSF consider using statistical sampling tools in future years to validate its IBNR liability in support of its development of a methodology to estimate the IBNR liability under ACM\$ going forward.

Conditions:

In response to our concern raised during the FY 2013 audit regarding NSF's methodology to estimate the IBNR liability, and to obtain more historical data to fully comply with TR 12, in June 2014 NSF performed a statistical validation of the IBNR liability as of September 30, 2013 (referred to as a FY 2013 "Look Back"). This validation process included obtaining financial data confirmations with many grantees and resulted in an IBNR liability estimate significantly higher than the \$91 million recorded in NSF's FY 2013 financial statements.

NSF determined that a significant portion of the increase was due to not giving full consideration to all grantee spending data available to NSF during the FY 2013 financial statement preparation process and, therefore, constituted an error. As a result, the amount in error was incorrectly reflected in NSF's FY 2014 operating results. As we had projected in the FY 2013 audit, the increase attributable to FY 2013 operations was not material to NSF's FY 2013 financial statements. However, the FY 2013 Look Back process clearly indicated that NSF's FY 2013 IBNR liability amount was not sufficient and the methodology to estimate the IBNR liability used in FY 2013 required substantial refinement going forward.

In response to the results of the FY 2013 Look Back process, NSF performed a similar statistically based calculation of the IBNR liability at September 30, 2014. That process resulted in NSF recording a statistically valid IBNR liability of \$250 million in its FY 2014 financial statements. Due to reporting deadlines in future years, NSF will not be able to perform similar calculations at future fiscal year ends.

Due to the short time that ACM\$ has been in place, NSF has been unable to fully evaluate grantee spending patterns for use in developing a reliable and tested methodology to estimate its IBNR liability in FY 2015 and forward.

Recommendations:

We recommend that NSF:

1. Provide grantees with additional training/communication/enforcement of the ACM\$ program's "real time" draw of funds features, so that more consistent and reliable grantee spending pattern data can be obtained from the grantees over a period of several years.
2. Using the historical grantee spending pattern data, establish a new methodology to estimate the IBNR liability portion of NSF's annual grant cost, for use at June 30th and September 30th of the fiscal year.
3. Prior to developing sufficient reliable historical grantee spending pattern data, develop a plan to use statistically based analyses, and confirmation procedures with its grantees, to calculate an IBNR liability at some point during the fiscal year.
4. Develop procedures to validate the final determined IBNR liability estimate at June 30th and/or September 30th, as necessary to comply with TR 12, to ensure that assumptions used in the methodology to estimate the IBNR liability are reasonable. This could be accomplished by periodically comparing the IBNR liability estimates with subsequent grantee reporting in ACM\$, surveys, or some other communication with its grantees.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT B
NATIONAL SCIENCE FOUNDATION
Management's Response to Independent Auditor's Report
September 30, 2014



OFFICE OF BUDGET, FINANCE & AWARD MANAGEMENT

MEMORANDUM

Date: DEC 13 2014

To: Allison Lerner, Inspector General

From: Martha A. Rubenstein, Chief Financial Officer

Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2014

I am pleased that the FY 2014 audit concluded that the National Science Foundation's (NSF) financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles. This is NSF's 17th consecutive unmodified audit opinion.

This was another extremely challenging year for successfully completing the audit due to the agency's transition to a new financial management system (iTRAK). We managed to overcome these challenges as a result of the hard work and dedication of NSF's staff, including the efforts of your staff and audit contractor.

During FY 2014 NSF continued to make progress in resolving the disagreement with the Office of Inspector General detailed in its reports on our construction type cooperative agreements with contingency budgets. For example, NSF's Audit Follow-up Official (AFO) determined that NSF's practices properly follow Office of Management and Budget newly clarified guidance by including contingency funding in awards. However, certain recommendations remain open in those OIG proposal audit reports and, accordingly, the NSF AFO is continuing to review those remaining recommendations for resolution.

We generally agree with the findings and recommendations in the report concerning NSF's grant accrual accounting estimation process. Awardees' usage of NSF's Award Cash Management Service resulted in timelier financial data and improved status of funds monitoring. However, it also required us to develop an alternate set of procedures to estimate grant expenditures through the end of FY 2014. During this process NSF performed extensive analysis and research, including a statistical validation of grantee

INDEPENDENT AUDITORS' REPORT (Continued)
Exhibit B (Continued)

expenditures in FY 2013. In FY 2014, in response to the results of the FY 2013 validation process, NSF performed a similar statistically based calculation to determine our grant accrued liability at September 30, 2014.

In the coming year, we will continue to work to strengthen our controls for awarding and managing construction type cooperative agreements. We will also concentrate on further improving NSF's grant accrual accounting estimation process.

We look forward to a productive and professional collaboration with the OIG and your contract auditors, to address the areas identified in your audit report. If you have any questions concerning our responses, please contact me at (703) 292-8200 or Shirl Ruffin, Deputy Chief Financial Officer at (703) 292-8280.

Copy: Dr. France Cordova



National Science Foundation

PRINCIPAL FINANCIAL STATEMENTS

As of and for the Years Ended
September 30, 2014 and 2013

National Science Foundation
Balance Sheet
As of September 30, 2014 and 2013
(Amounts in Thousands)

Assets	<u>2014</u>	<u>2013</u>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 11,780,549	\$ 11,586,927
Accounts Receivable	2,222	28,186
Advances	36,987	52,656
Total Intragovernmental Assets	<u>11,819,758</u>	<u>11,667,769</u>
Cash and Other Monetary Assets (Note 2)	35,562	31,284
Accounts Receivable, Net	2,184	2,833
Advances	514	228
General Property, Plant and Equipment, Net (Notes 3 and 4)	273,832	268,489
Total Assets	<u>\$ 12,131,850</u>	<u>\$ 11,970,603</u>
Liabilities		
Intragovernmental Liabilities		
Accounts Payable	\$ 4,677	\$ -
Advances From Others	16,594	22,319
Other Intragovernmental Liabilities	3,605	4,243
Total Intragovernmental Liabilities	<u>24,876</u>	<u>26,562</u>
Accounts Payable	62,443	95,919
FECA Employee Benefits	1,330	1,424
Environmental and Disposal Liabilities (Note 6)	18,247	18,247
Accrued Liabilities - Grants (Note 7)	250,333	91,091
Accrued Liabilities - Contracts, Payroll, and Other	5,454	8,813
Accrued Annual Leave	17,576	17,790
Total Liabilities	<u>\$ 380,259</u>	<u>\$ 259,846</u>
Net Position		
Unexpended Appropriations - Other Funds	\$ 11,057,969	\$ 11,047,853
Cumulative Results of Operations - Other Funds	289,423	294,224
Cumulative Results of Operations - Dedicated Collections (Note 8)	404,199	368,680
Total Net Position	<u>11,751,591</u>	<u>11,710,757</u>
Total Liabilities and Net Position	<u>\$ 12,131,850</u>	<u>\$ 11,970,603</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Net Cost
For the Years Ended September 30, 2014 and 2013
(Amounts in Thousands)

Program Costs (Note 9)	<u>2014</u>	<u>2013</u>
Research and Related Activities		
Gross Costs	\$ 6,050,953	\$ 6,035,128
Less: Earned Revenues	<u>(100,782)</u>	<u>(101,802)</u>
Net Research and Related Activities	<u>5,950,171</u>	<u>5,933,326</u>
Education and Human Resources		
Gross Costs	\$ 877,314	\$ 796,459
Less: Earned Revenues	<u>(3,616)</u>	<u>(5,406)</u>
Net Education and Human Resources	<u>873,698</u>	<u>791,053</u>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 292,661	\$ 225,403
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Major Research Equipment and Facilities Construction	<u>292,661</u>	<u>225,403</u>
Donations and Dedicated Collections		
Gross Costs	\$ 140,121	\$ 167,289
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Donations and Dedicated Collections	<u>140,121</u>	<u>167,289</u>
Net Cost of Operations (Notes 9 and 16)	<u>\$ 7,256,651</u>	<u>\$ 7,117,071</u>

The accompanying notes are an integral part of these statements.

Principal Financial Statements
September 30, 2014 and 2013

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2014
(Amounts in Thousands)

	<u>2014</u>		
	<u>Funds From</u>		
	<u>Dedicated Collections</u>	<u>All Other</u>	<u>Total</u>
Cumulative Results of Operations			
Beginning Balances (Note 8)	\$ 368,680	294,224	662,904
Adjustments			
Changes in Accounting Principle (Note 6)	-	-	-
Beginning Balances - Adjusted	368,680	294,224	662,904
Budgetary Financing Sources			
Appropriations Used	-	7,115,793	7,115,793
Non-exchange Revenue	-	1,455	1,455
Donations	-	32,453	32,453
Appropriated Funds from Dedicated Collections Transferred In / (Out) (Note 8)	128,053	-	128,053
Other Financing Sources			
Transfers In / (Out) Without Reimbursement	-	-	-
Imputed Financing From Costs Absorbed By Others	-	11,172	11,172
Other	-	(1,557)	(1,557)
Total Financing Sources	128,053	7,159,316	7,287,369
Net Cost of Operations (Notes 8 and 9)	(92,534)	(7,164,117)	(7,256,651)
Cumulative Results of Operations (Note 8)	\$ 404,199	289,423	693,622
Unexpended Appropriations			
Beginning Balances	\$ -	11,047,853	11,047,853
Budgetary Financing Sources			
Appropriations Received	-	7,171,918	7,171,918
Rescissions and Cancelled Authority Adjustments (Note 10)	-	(46,009)	(46,009)
Appropriations Used	-	(7,115,793)	(7,115,793)
Total Budgetary Financing Sources	-	10,116	10,116
Total Unexpended Appropriations	-	11,057,969	11,057,969
Net Position	\$ 404,199	11,347,392	11,751,591

The accompanying notes are an integral part of these statements.

Principal Financial Statements
September 30, 2014 and 2013

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2013
(Amounts in Thousands)

	2013		
	Funds From		Total
	Dedicated Collections	All Other	
Cumulative Results of Operations			
Beginning Balances (Note 8)	\$ 344,204	342,743	686,947
Adjustments			
Changes in Accounting Principle (Note 6)	-	(18,247)	(18,247)
Beginning Balances - Adjusted	344,204	324,496	668,700
Budgetary Financing Sources			
Appropriations Used	-	6,945,406	6,945,406
Non-exchange Revenue	-	2,413	2,413
Donations	-	40,276	40,276
Appropriated Funds from Dedicated Collections Transferred In / (Out) (Note 8)	115,841	-	115,841
Other Financing Sources			
Transfers In / (Out) Without Reimbursement	-	781	781
Imputed Financing From Costs Absorbed By Others	-	11,358	11,358
Other	-	(4,800)	(4,800)
Total Financing Sources	115,841	6,995,434	7,111,275
Net Cost of Operations (Notes 8 and 9)	(91,365)	(7,025,706)	(7,117,071)
Cumulative Results of Operations (Note 8)	\$ 368,680	294,224	662,904
 Unexpended Appropriations			
Beginning Balances	\$ -	11,158,221	11,158,221
Budgetary Financing Sources			
Appropriations Received	-	7,393,100	7,393,100
Rescissions and Cancelled Authority Adjustments (Note 10)	-	(558,062)	(558,062)
Appropriations Used	-	(6,945,406)	(6,945,406)
Total Budgetary Financing Sources	-	(110,368)	(110,368)
Total Unexpended Appropriations	-	11,047,853	11,047,853
Net Position	\$ 368,680	11,342,077	11,710,757

The accompanying notes are an integral part of these statements.

Principal Financial Statements
September 30, 2014 and 2013

National Science Foundation
Statement of Budgetary Resources
For the Years Ended September 30, 2014 and 2013
(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>
Budgetary Resources		
Unobligated Balance - Brought Forward, October 1	\$ 293,444	\$ 277,140
Recoveries of Prior Year Unpaid Obligations	119,284	150,973
Other Changes in Unobligated Balance	<u>(46,009)</u>	<u>(48,773)</u>
Unobligated Balance from Prior Year Budget Authority, Net	366,719	379,340
Appropriations	7,332,495	7,040,321
Spending Authority from Offsetting Collections	101,721	111,524
Total Budgetary Resources (Note 13)	\$ <u>7,800,935</u>	\$ <u>7,531,185</u>
Status of Budgetary Resources		
Obligations Incurred (Notes 12 & 13)	\$ 7,407,202	\$ 7,237,741
Unobligated Balance, End of Year		
Apportioned (Note 2)	195,670	145,033
Unapportioned (Notes 2 & 13)	<u>198,063</u>	<u>148,411</u>
Total Unobligated Balance, End of Year	393,733	293,444
Total Status of Budgetary Resources	\$ <u>7,800,935</u>	\$ <u>7,531,185</u>
Change in Obligated Balance		
Unpaid Obligations		
Unpaid Obligations - Brought Forward, October 1	\$ 11,471,269	\$ 11,946,749
Obligations Incurred	7,407,202	7,237,741
Gross Outlays	(7,214,548)	(7,562,248)
Recoveries of Prior Year Unpaid Obligations	<u>(119,284)</u>	<u>(150,973)</u>
Unpaid Obligations, End of Year	11,544,639	11,471,269
Uncollected Payments		
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (146,502)	\$ (136,496)
Change in Uncollected Payments from Federal Sources	<u>23,567</u>	<u>(10,006)</u>
Uncollected Payments from Federal Sources, End of Year	(122,935)	(146,502)
Memorandum (non-add) Entries		
Obligated Balance, Start of Year	\$ 11,324,767	\$ 11,810,253
Obligated Balance, End of Year (Note 2)	\$ 11,421,704	\$ 11,324,767
Budget Authority and Outlays, Net		
Budget Authority, Gross	\$ 7,434,216	\$ 7,151,845
Actual Offsetting Collections	(125,288)	(101,518)
Change in Uncollected Customer Payments from Federal Sources	<u>23,567</u>	<u>(10,006)</u>
Budget Authority, Net	\$ <u>7,332,495</u>	\$ <u>7,040,321</u>
Gross Outlays	\$ 7,214,548	\$ 7,562,248
Actual Offsetting Collections	<u>(125,288)</u>	<u>(101,518)</u>
Net Outlays	7,089,260	7,460,730
Distributed Offsetting Receipts (Note 13)	<u>(35,105)</u>	<u>(43,584)</u>
Net Agency Outlays	\$ <u>7,054,155</u>	\$ <u>7,417,146</u>

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. NSF enters into relationships through awards, to fund the research operations conducted by grantees.

NSF is led by a presidentially-appointed Director and the policy-making National Science Board (NSB). The NSB, currently 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 six-year terms. The NSF Director is an *ex officio* member of the Board.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and the Office of Management and Budget (OMB) Circular No. 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 traditionally 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 receipt account for dedicated collections that is reported as H-1B Non-immigrant Petitioner Fees Account (H-1B) funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies as well as from receipts to the NSF *Donations 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 Treasury at the end of each fiscal year.

In FY 2014, The Science Appropriation Act, 2014 under Public Law 113-76 provided funding for each of NSF's appropriations. In addition, the Act provided an administrative provision allowing NSF to transfer up to five percent of current year funding between appropriations. 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. "Unfunded" liabilities result from liabilities not covered by budgetary resources and will be paid when future appropriations are made available for these purposes. Donations are recognized as revenues when funds are received. Revenues from reimbursable agreements are recognized when the services are provided and the related expenditures are incurred. Reimbursable agreements are mainly for grant administrative services provided by NSF on behalf of other federal agencies.

Under the general authority of the Foundation, NSF is authorized to accept and use both U.S and foreign funds into the NSF *Donations Account*. 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, non-profit 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 Treasury. *Fund Balance with Treasury* is composed primarily of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. *Cash and Other Monetary Assets* primarily include non-appropriated funding sources from donations and undeposited collections.

F. Accounts Receivable, Net

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

NSF establishes an allowance for loss on accounts receivable from non-federal 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 non-federal sources that is more than two years old.

G. Advances

Advances consist of advances to contractors and federal agencies. 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. Additionally, some NSF grantees receive advanced funds prior to incurring expenses. Payments are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Grant advances are presented net of grant liabilities on NSF's Balance Sheet.

H. General Property, Plant and Equipment

NSF capitalizes PP&E with costs exceeding \$25.0 thousand and useful lives of two 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 valued 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. 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 on-site 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 construction in progress 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
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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

Leases and Leasehold Improvements

The NSF Headquarter 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 Headquarter buildings is not capitalized by NSF. All NSF leases are cancellable and/or in effect for a period of no more than one year. 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

construction in progress. In the future, NSF will be moving to a new Headquarter building in Alexandria, VA. Information on the expected new lease can be found on NSF's website: http://www.nsf.gov/news/news_summ.jsp?cntn_id=128219

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 capital property for items that, in the aggregate, cost \$500.0 thousand or more to purchase, develop, enhance, or modify a new or existing NSF system, or configure a government-wide system for NSF needs. Software projects that are not completed at year end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight-line 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, non-profit 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 4, *General Property, Plant and Equipment in the Custody of Other Entities*, 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.

J. Accounts Payable

Accounts Payable consist 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 for 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

Effective June 30, 2013, NSF adopted the full use of a new grantee cash request and expenditure reporting process, Award Cash Management Service (ACM\$). The implementation of ACM\$ required a modification of NSF's grant accrual methodology. NSF is actively collecting information from its grantees and ACM\$ as a new grant accrual methodology is developed for future years. Although a new methodology has not been finalized as of September 30, 2014, NSF's interim approach uses statistical sampling and grantee confirmation survey results to estimate grant expenses incurred but not yet reported. Additional details are included in Note 7, *Accrued Liabilities - Grants*.

L. Accrued Liabilities –Contracts, Payroll, and Other

Accrued Liabilities – Contracts, Payroll, and Other consist of contract accruals, accrued payroll, and undeposited collections. The total contract liabilities for the year are determined based on an estimate of prior quarter expenditures incurred by 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 Interior Business Center. Accrued payroll relates to services rendered by NSF employees, for which they have not yet been paid. At year end, NSF accrues the amount of wages earned, but not yet paid. Undeposited collections are funds received by NSF, but not remitted to Treasury prior to September 30.

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 (AOAM) 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 AOAM appropriations. Sick leave and other types of non-vested 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 2014, approximately 10 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/retirement-services/publications-forms/benefits-administration-letters/2014/14-304.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 can also be 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 they are 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.

Termination Claims: NSF engages organizations, including 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 and drilling. In some instances, an award decision is made to continue operation of a facility with a different entity performing operation and management duties. In such an occurrence, NSF does not classify the facility as terminated. Claims submitted by the previous managing entity for expenditures not covered by the indirect cost rate included in the initial award are subject to audit and typically paid with existing program funds.

Agreements with FFRDCs include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event a facility is terminated. NSF considers termination of these facilities only remotely possible. Should a facility be 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. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the facility is terminated.

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

While NSF is not legally liable for environmental clean-up costs in the Antarctic, there are occasions when the NSF Division of Polar Programs (PLR) chooses to accept responsibility and commit funds toward clean-up efforts of various sites as resources permit. Decisions to commit funds 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 would be 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.

Separate from environmental clean-up costs related to the Antarctic Conservation Act, NSF discloses NSF-owned buildings in the Antarctic that have been identified as having, or expected to have, friable and non-friable asbestos containing material. NSF's estimated cost for asbestos related clean-up is shown on the Balance Sheet as a liability. Additional detail on the estimate methodology is included in Note 6, *Environmental and Disposal Liability*.

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 property, plant and equipment. 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.

Notes to the Principal Financial Statements
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Note 2. Fund Balance With Treasury

Fund Balance with Treasury (FBWT) consisted of the following components as of September 30, 2014 and 2013:

(Amounts in Thousands)	2014			
	Appropriated Funds	Donated Funds	Funds from Dedicated Collections	Total
Obligated	\$ 11,093,691	\$ 25,070	\$ 302,943	\$ 11,421,704
Unobligated Available	73,827	27,632	94,211	195,670
Unobligated Unavailable	183,707	217	14,139	198,063
Less: Cash and Other Monetary Assets	(674)	(34,888)	-	(35,562)
Add: Undeposited Collections	674	-	-	674
Total FBWT	\$ 11,351,225	\$ 18,031	\$ 411,293	\$ 11,780,549

(Amounts in Thousands)	2013			
	Appropriated Funds	Donated Funds	Funds from Dedicated Collections	Total
Obligated	\$ 11,025,648	\$ 33,624	\$ 265,495	\$ 11,324,767
Unobligated Available	10,051	32,855	102,127	145,033
Unobligated Unavailable	146,080	12	2,319	148,411
Less: Cash and Other Monetary Assets	-	(31,284)	-	(31,284)
Add: Undeposited Collections	-	-	-	-
Total FBWT	\$ 11,181,779	\$ 35,207	\$ 369,941	\$ 11,586,927

The NSF *Donations Account* includes amounts donated to NSF from all sources. Funds in the NSF *Donations Account* may be used to further one or more of the general purposes of the Foundation. The donated funds are reported as *FBWT* or as *Cash and Other Monetary Assets*. Donations reported as *Cash and Other Monetary Assets* represent cash held outside of Treasury at commercial banks in interest bearing accounts. These funds are collateralized up to \$33.8 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 was established in the general fund of the U.S. Treasury. These funds are considered Funds from Dedicated Collections and are not included in Appropriated Funds. The funds represent fees collected for each petition for non-immigrant status. Under the law, NSF was prescribed a percentage of these fees for specific programs.

Note 3. General Property, Plant and Equipment, Net

The components of *General Property, Plant, and Equipment* as of September 30, 2014 and 2013 were:

(Amounts in Thousands)	2014		
	Acquisition	Accumulated	Net Book Value
	Cost	Depreciation	
Equipment	\$ 146,602	\$ (129,402)	\$ 17,200
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	305,768	(122,467)	183,301
Leasehold Improvements	10,981	(10,981)	-
Construction in Progress	13,755	-	13,755
Internal Use Software	48,274	(20,273)	28,001
Software in Development	31,575	-	31,575
Total PP&E	\$ 695,442	\$ (421,610)	\$ 273,832

(Amounts in Thousands)	2013		
	Acquisition	Accumulated	Net Book Value
	Cost	Depreciation	
Equipment	\$ 145,902	\$ (124,214)	\$ 21,688
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	305,855	(114,746)	191,109
Leasehold Improvements	10,981	(10,981)	-
Construction in Progress	12,712	-	12,712
Internal Use Software	48,274	(15,842)	32,432
Software in Development	10,548	-	10,548
Total PP&E	\$ 672,759	\$ (404,270)	\$ 268,489

At September 30, 2014, NSF's new core financial system, iTRAK, was in development and subsequently placed into service in October 2014.

Note 4. General Property, Plant, and Equipment in the Custody of Other Entities

NSF received a ruling from FASAB on accounting for PP&E owned by NSF but in the custody of and used by others (see Note 1H. *General Property, Plant, and Equipment (PP&E)*). 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.

As of September 30, 2014, there were 36 colleges or universities, and 39 commercial entities that held property titled to NSF. With the exception of the FFRDCs listed below, 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 30th. If NSF PP&E is not separately stated on the FFRDC's audited financial statements, the FFRDC is not audited, or the FFRDC's disclosed PP&E balances are not audited, the related amounts are annotated as Not Available (N/A) in the table.

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(Amounts in Thousands)

<i>Federally Funded Research and Development Centers</i>	Amount	Fiscal Year Ending
University Corporation for Atmospheric Research - UCAR	\$206,583	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	N/A	9/30
National Radio Astronomy Observatory - AUI	\$555,526	9/30

Note 5. Leases

NSF leases its Headquarter building under an operating lease with GSA. The following is a schedule of future minimum lease payments for the Headquarter buildings and office space in Denver, Colorado. The current leases are active through FY 2021.

(Amounts in Thousands)

Fiscal Year	Operating Lease Amount
2015	\$ 30,206
2016	30,446
2017	30,631
2018	7,681
2019 and After	212
Total Minimum Lease Payments	\$ 99,176

In addition to the Headquarter buildings, NSF occupies common spaces with other federal agencies overseas through the State Department's International Cooperative Administrative Support Services (ICASS) system. NSF uses ICASS in Beijing, Paris, and Tokyo for residential and non-residential space. ICASS is a voluntary cost distribution system and the agreement to receive ICASS services is through an annual Memorandum of Understanding (MOU) between the NSF and the State Department. Additionally, NSF occupies residential space in Tokyo; the lease to occupy the space is a cancellable and/or for a period not more than a year.

Note 6. Environmental and Disposal Liability

Pursuant to Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, federal entities are required to recognize a liability for federal property asbestos cleanup costs. Some NSF owned buildings and structures used to support the USAP have been identified as having, or expected to have, friable and non-friable asbestos containing material (ACM). Upon the effective date in FY 2013, NSF recognized the entire asbestos liability of \$18.2 million. The balance was recorded as a prior period adjustment due to a change in accounting principle since the majority of the real property has been in service for a significant portion of their estimated useful life. NSF based the asbestos liability on information supplied by the Antarctic Support Contractor (ASC). The ASC supplied information was based on asbestos surveys conducted in 2006 and included updates for all abatements and encapsulations performed since that time. The liability incorporates the following estimates:

- Waste handling in Antarctica to include miscellaneous supplies
- Transportation and disposal costs once the waste arrives in the United States
- Subcontract pricing information for asbestos abatement based on FY 2013 rates

As required by SFFAS No. 6, *Accounting for Property, Plant and Equipment*, NSF works with the current ASC to determine the need for asbestos liability adjustments based on actual asbestos costs incurred on an annual basis. Actual asbestos remediation costs are submitted quarterly by the ASC and the asbestos liability is reduced by the reported amount. No asbestos remediation costs were incurred as of September 30, 2014 and the balance remains \$18.2 million.

Note 7. Accrued Liabilities – Grants

Effective June 30, 2013, NSF fully implemented a new grantee cash request and expenditure reporting system, ACM\$. The new system enables all grantee institutions to request funds at the award level. Accordingly, NSF began to accumulate grantee data under ACM\$ to develop a new grant accrual methodology for future use. However, through September 30, 2013, consistent historical grantee spending information under ACM\$ was not yet available for NSF to reasonably estimate grantee spending patterns and grantee costs incurred but not yet reported/drawn at September 30, 2013.

Based on the average daily ACM\$ draws for only the last quarter of FY 2013, NSF recorded a “cut-off” grant accrual of \$91.1 million at September 30, 2013. The methodology was developed due to Treasury cut-off dates, that resulted in the inability of grantees to drawdown funds in ACM\$ three business days before the end of the fiscal year.

In FY 2014, pursuant to guidelines set forth in Technical Release (TR 12) *Accrual Estimates for Grant Programs*, NSF performed a statistical validation of grantee expenses incurred, but not yet reported/drawn as of September 30, 2013. The validation results were significantly higher than the \$91.1 million recorded in the FY 2013 financial statements, and NSF determined that the increase was due to a combination of change in estimate and correction of error in FY 2013. The correction of error portion of the increase was not material to the FY 2013 financial statements and, accordingly, the FY 2013 financial statements were not restated.

NSF developed an alternate grant accrual methodology for FY 2014. Accordingly, NSF applied a statistical approach to determine the amount of FY 2014 grantee expenses incurred but not yet reported or drawn at the end of the year. The approach involved sending questionnaires to a statistically based sample of grantee institutions requesting their cash on hand balance as of September 30, 2014. This FY 2014 grant accrual approach resulted in a grant accrued liability recorded in NSF’s financial statements of \$250.3 million at September 30, 2014. Such amount is net of advances drawn by grantees for estimated expenditure requirements in October 2014 (FY 2015).

Note 8. Funds from Dedicated Collections

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,

Notes to the Principal Financial Statements
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indefinite appropriation by NSF. These funds are included in the President's budget. The funds from dedicated collections are accounted for in a separate Treasury Account Fund Symbol (TAFS), and the budgetary resources are recorded as *Appropriated Funds from Dedicated Collections Transferred In / Out*. Funds from Dedicated Collections are reported in accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. For the years ended September 30, 2014 and September 30, 2013, NSF was subject to H-1B sequestration rescissions in the amount of \$9.5 million and \$5.1 million, respectively.

(Amounts in Thousands)	2014	2013
Balance Sheet as of September 30, 2014 and 2013		
Fund Balance With Treasury	\$ 411,293	\$ 369,941
Total Assets	<u>411,293</u>	<u>369,941</u>
Other Liabilities	<u>7,094</u>	<u>1,261</u>
Total Liabilities	<u>7,094</u>	<u>1,261</u>
Cumulative Results of Operations	<u>404,199</u>	<u>368,680</u>
Total Liabilities and Net Position	<u>\$ 411,293</u>	<u>\$ 369,941</u>

Statement of Net Cost for the Years Ended September 30, 2014 and 2013

Program Costs	\$ 92,534	\$ 91,365
Net Cost of Operations	<u>\$ 92,534</u>	<u>\$ 91,365</u>

Statement of Changes in Net Position For the Years Ended September 30, 2014 and 2013

Net Position Beginning of Period	\$ 368,680	\$ 344,204
Appropriated Dedicated Collection Transferred In / Out	128,053	115,841
Net Cost of Operation	<u>(92,534)</u>	<u>(91,365)</u>
Change in Net Position	<u>35,519</u>	<u>24,476</u>
Net Position End of Period	<u>\$ 404,199</u>	<u>\$ 368,680</u>

Note 9. Statement of Net Cost

NSF has a singular program for supporting research and education awards. The net costs for this program are presented for the three primary appropriations that fund NSF's programmatic activities (Research and Related Activities (R&RA), Education and Human Resources (EHR), and Major Research Equipment and Facilities Construction (MREFC)). Donations and Funds from Dedicated Collections are separately presented in the Statement of Net Cost and in the tables below.

In pursuit of its mission, NSF incurs costs related to the Foundation's strategic plan for FY 2014-2018: *Investing in Science, Engineering, and Education for the Nation's Future*. The strategic goals outlined in this plan are: "Transform the Frontiers of Science and Engineering", "Stimulate Innovation and Address Societal Needs through Research and Education", and "Excel as a Federal Science Agency". "Transform the Frontiers of Science and Engineering" emphasizes the seamless integration of research and education as well as the close coupling of research infrastructure and discovery. "Stimulate Innovation and Address Societal Needs through Research and Education" points to the tight linkage between NSF programs and

Notes to the Principal Financial Statements
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societal needs, and highlights the role that new knowledge and creativity play in economic prosperity and society's general welfare. "Excel as a Federal Science Agency" emphasizes the importance to NSF of attaining excellence and inclusion in all operational aspects.

Stewardship costs directly reflect the third strategic goal, "Excel as a Federal Science Agency", and are prorated among the Net Cost programs. Stewardship costs include expenditures incurred from the AOAM, NSB, and Office of Inspector General (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, 2014 approximately 96 percent of NSF's expenses amounting to \$7.1 billion was directly related to the "Transform the Frontiers of Science and Engineering" and "Stimulate Innovation and Address Societal Needs through Research and Education" strategic outcome goals. At September 30, 2013 approximately 95 percent of NSF's expenses amounting to \$6.9 billion was directly related to the "Transform the Frontiers of Science and Engineering" and "Stimulate Innovation and Address Societal Needs through Research and Education" strategic outcome goals. At September 30, 2014 and 2013, costs related to the stewardship activities totaled \$309.8 million and \$327.4 million, respectively.

In accordance with OMB Circular No. A-136, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are separately identified in this note 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.

Intragovernmental and Public Costs and Earned Revenue by Program

(Amounts in Thousands)	2014		
	Federal	Public	Total
Research and Related Activities			
Gross Costs	\$ 245,202	\$ 5,805,751	\$ 6,050,953
Less: Earned Revenue	(100,782)	-	(100,782)
Net Research and Related Activities	144,420	5,805,751	5,950,171
Education and Human Resources			
Gross Costs	\$ 6,824	\$ 870,490	\$ 877,314
Less: Earned Revenue	(3,616)	-	(3,616)
Net Education and Human Resources	3,208	870,490	873,698
Major Research Equipment and Facilities Construction			
Gross Costs	\$ 45	\$ 292,616	\$ 292,661
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	45	292,616	292,661
Donations and Dedicated Collections			
Gross Costs	\$ 525	\$ 139,596	\$ 140,121
Less: Earned Revenue	-	-	-
Net Donations and Dedicated Collections	525	139,596	140,121
Net Cost of Operations	\$ 148,198	\$ 7,108,453	\$ 7,256,651

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(Amounts in Thousands)	2013		
	Federal	Public	Total
Research and Related Activities			
Gross Costs	\$ 204,129	\$ 5,830,999	\$ 6,035,128
Less: Earned Revenue	(101,802)	-	(101,802)
Net Research and Related Activities	<u>102,327</u>	<u>5,830,999</u>	<u>5,933,326</u>
Education and Human Resources			
Gross Costs	\$ 4,636	\$ 791,823	\$ 796,459
Less: Earned Revenue	(5,406)	-	(5,406)
Net Education and Human Resources	<u>(770)</u>	<u>791,823</u>	<u>791,053</u>
Major Research Equipment and Facilities Construction			
Gross Costs	\$ 19	\$ 225,384	\$ 225,403
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	<u>19</u>	<u>225,384</u>	<u>225,403</u>
Donations and Dedicated Collections			
Gross Costs	\$ 22	\$ 167,267	\$ 167,289
Less: Earned Revenue	-	-	-
Net Donations and Dedicated Collections	<u>22</u>	<u>167,267</u>	<u>167,289</u>
Net Cost of Operations	<u>\$ 101,598</u>	<u>\$ 7,015,473</u>	<u>\$ 7,117,071</u>

Note 10. Rescissions and Cancelled Authority Adjustments

The components of Rescissions and Cancelled Authority Adjustments as of September 30, 2014 and September 30, 2013 were:

(Amount in Thousands)	2014	2013
Rescissions	\$ -	\$ (508,986)
Cancelled Authority Adjustments	(46,009)	(49,076)
Total Rescissions and Cancelled Authority Adjustments	<u>\$ (46,009)</u>	<u>\$ (558,062)</u>

In FY 2014, NSF sequestration rescissions were limited to H-1B as described in Note 8. These rescissions are included as *Appropriated Funds from Dedicated Collections Transferred In / Out* and are not included on the *Rescissions and Cancelled Authority Adjustments* line of the Statement of Changes in Net Position. In accordance with Public Law 113-6, NSF was subject to FY 2013 across-the-board and sequestration rescissions. These rescissions required NSF to reduce FY 2013 funding levels by 1.877% under section 3001 and 0.2% under section 3004.

Note 11. 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 FYs 2014 and 2013 the permanent indefinite appropriations for R&RA were \$435.9 million and \$427.2 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 FYs 2014 and 2013, the permanent indefinite appropriations for MREFC were \$200.0 million and \$196.2 million, respectively. In FY 2013, an additional \$12.5 million was transferred as a result of the exercise of the Administrative Provision described in Note 1D, *Revenue and Other Financing Sources*.

The EHR appropriation is used to support science and engineering education, and human resources programs and activities. In FYs 2014 and 2013, the permanent indefinite appropriations for EHR were \$60.9 million and \$50.5 million respectively, and are reported as current year transfers from the annual EHR appropriation.

Note 12. 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 FYs 2014 and 2013, NSF's SF-133, *Report on Budget Execution and Budgetary Resources*, reported all obligations incurred under Category B which is by activity, project, or object. As of September 30, 2014 and 2013, direct obligations amounted to \$7.3 billion and \$7.1 billion, respectively, and reimbursable obligations amounted to \$103.6 million and \$118.7 million, respectively.

Note 13. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States 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 United States Government (President's Budget). However, the President's Budget that will include FY 2014 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of FY 2015 and can be found on the OMB website: <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2013 SBR and the related President's Budget are shown in a table below for *Budgetary Resources, Obligations Incurred, Unobligated Balance - Unavailable, Distributed Offsetting Receipts*, and any related differences. The differences reported are due to differing reporting requirements for expired and 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. Additionally, the *Distributed Offsetting Receipts* amount on the SBR includes donations, while the President's Budget does not.

(Amounts in Thousands)	2013			
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable	Distributed Offsetting Receipts
Combined Statement of Budgetary Resources	\$ 7,531,185	\$ 7,237,741	\$ 148,411	\$ 43,584
Budget of the U.S. Government	\$ 7,340,395	\$ 7,185,745	\$ 9,617	\$ 3,000
Difference	\$ 190,790	\$ 51,996	\$ 138,794	\$ 40,584

Note 14. 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 obligated for undelivered orders for the periods ended September 30, 2014 and 2013 amounted to \$11.3 billion in both years.

Note 15. Awards to Affiliated Institutions

NSB members may be affiliated with institutions that are eligible to receive grants and awards from NSF. NSF made awards totaling \$992.5 million to board member affiliated institutions in FY 2014. The Board does not review all NSF award actions; however the following require NSB approval for the NSF Director to take action under delegated authority:

- Proposed awards, requests for proposals (RFPs), and solicitations that meet or exceed a threshold where the average annual award amount is the greater of one percent or more of the awarding Directorate's or Office's prior year plan or 0.1 percent or more of the prior year total NSF budget (enacted level);
- New programs where the total annualized awards exceed three percent of the awarding Directorate's or Office's prior year current plan, involve sensitive political or policy issues, or will be funded as an ongoing NSF-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.

NSF may fund awards meeting the above requirements to institutions affiliated with board members. Federal conflict-of-interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the Designated Agency Ethics Official (DAEO). Prior to Board meetings, all NSB action items are screened for conflict-of-interest/impartiality concerns by the Office of the General Counsel. Members who have conflicts are either recused from the matter or receive a waiver from the DAEO to participate. In FY 2014, NSB approved two awards to board member affiliated institution.

Note 16. Reconciliation of Net Cost of Operations to Budget

(Amounts in Thousands)	2014	2013
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 7,407,202	\$ 7,237,741
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(221,005)</u>	<u>(262,497)</u>
Obligations Net of Offsetting Collections and Recoveries	7,186,197	6,975,244
Less: Offsetting Receipts	<u>(35,105)</u>	<u>(43,584)</u>
Net Obligations	7,151,092	6,931,660
Other Resources		
Transfers In / (Out) Without Reimbursement	-	781
Imputed Financing	11,172	11,358
Other Resources	<u>(1,557)</u>	<u>(4,800)</u>
Net Other Resources Used to Finance Activities	9,615	7,339
Total Resources Used to Finance Activities	7,160,707	6,938,999
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	65,203	124,450
Resources that Fund Expenses Recognized in Prior Periods	323	(2,713)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	35,105	43,584
Resources that Finance the Acquisition of Assets	<u>(24,549)</u>	<u>(18,281)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	76,082	147,040
Total Resources Used to Finance Net Cost of Operations	7,236,789	7,086,039
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Other	<u>-</u>	<u>67</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	-	67
Components Not Requiring or Generating Resources		
Depreciation and Amortization	19,098	24,738
Other	<u>764</u>	<u>6,227</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources	19,862	30,965
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	19,862	31,032
Net Cost of Operations	\$ <u>7,256,651</u>	\$ <u>7,117,071</u>

Required Supplementary Stewardship Information

Stewardship Investments

For the Years Ended September 30, 2014 and 2013

Required Supplementary Stewardship Information
September 30, 2014 and 2013

Stewardship Investments
Research and Human Capital
(Dollar Amounts in Thousands)

Research and Human Capital Activities

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Basic Research	\$ 5,383,795	\$ 5,446,790	\$ 5,590,843	\$ 5,401,356	5,249,579
Applied Research	726,087	588,261	532,729	404,596	416,008
Education and Training	941,330	861,871	991,543	1,115,680	1,019,776
Non-Investing Activities	309,837	327,357	333,712	337,170	312,269
Total Research & Human Capital Activities	<u>\$ 7,361,049</u>	<u>\$ 7,224,279</u>	<u>\$ 7,448,827</u>	<u>\$ 7,258,802</u>	<u>6,997,632</u>

Inputs, Outputs and/or Outcomes

Research and Human Capital Activities

Investments In:

Universities	\$ 5,407,717	\$ 5,025,068	\$ 5,445,926	\$ 5,192,332	5,103,835
Industry	286,916	337,818	280,452	350,115	286,419
Federal Agencies	252,596	208,806	264,846	195,652	203,635
Small Business	224,931	249,443	239,866	254,215	268,697
Federally Funded R&D Centers	234,515	280,032	229,474	231,234	246,217
Non-Profit Organizations	529,482	605,059	523,772	522,958	408,441
Other	424,892	518,053	464,491	512,296	480,388
	<u>\$ 7,361,049</u>	<u>\$ 7,224,279</u>	<u>\$ 7,448,827</u>	<u>\$ 7,258,802</u>	<u>6,997,632</u>

Support To:

Scientists	\$ 550,800	\$ 539,713	\$ 544,452	\$ 540,865	568,140
Postdoctoral Programs	190,188	190,564	192,863	196,071	188,665
Graduate Students	586,443	568,548	574,557	564,021	602,990
	<u>\$ 1,327,431</u>	<u>\$ 1,298,825</u>	<u>\$ 1,311,872</u>	<u>\$ 1,300,957</u>	<u>1,359,795</u>

Outputs & Outcomes:

Number of:

Award Actions	20,000	20,000	23,000	22,000	24,000
Senior Researchers	41,000	44,000	56,000	53,000	55,000
Other Professionals	17,000	14,000	14,000	14,000	15,000
Postdoctoral Associates	6,000	6,000	6,000	7,000	7,000
Graduate Students	40,000	42,000	42,000	40,000	40,000
Undergraduate Students	34,000	29,000	31,000	27,000	34,000
K-12 Students	130,000	124,000	125,000	86,000	59,000
K-12 Teachers	40,000	40,000	45,000	48,000	85,000

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 and education and training expenses are determined by prorating the program costs of NSF's R&RA, EHR, and MREFC appropriations, donations, and funds from dedicated collections reported on the Statement of Net Cost. The proration uses the basic and applied research and education and training percentages of total estimated research and development obligations reported in the FY 2015 Budget Request to Congress. The actual numbers are not available until later in the following fiscal year. Non-Investing activities reflect stewardship costs incurred from the AOAM, NSB and OIG appropriations.

The data provided for scientists, postdoctoral associates, and graduate students are obtained from NSF's award budget information as recorded at the time the award is made. The number of award actions are actual values from NSF's Enterprise Information System (EIS). The remaining outputs and outcomes are estimates provided annually by the NSF Directorates. These estimates are reported in the NSF annual Budget Request to Congress.

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. The number of K-12 students involved in NSF activities are based on a robust data collection and analysis process.

Required Supplementary Information

Deferred Maintenance and Repairs For the Years Ended September 30, 2014 and 2013

Deferred Maintenance and Repairs

NSF performs condition assessment surveys in accordance with FASAB Standard No. 42 for capitalized general property, plant and equipment (PP&E) to determine if any maintenance and repairs are needed to keep an asset in an acceptable condition or restore an asset to a specific level of performance. NSF considers deferred maintenance and repairs to be any maintenance and repairs that are 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 and repairs also include any other type of maintenance or repair that, if not performed, would render the PP&E non-operational. Circumstances such as non-availability of parts or funding are considered reasons for deferring maintenance and repairs.

NSF considered whether any scheduled maintenance or repair necessary to keep fixed assets of the agency in an acceptable condition was deferred at the end of the periods ended September 30, 2014 and 2013. 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 and repairs 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 and repairs on assets in poor condition is considered critical in order to maintain operational status.

At September 30, 2014, NSF determined that there was no scheduled maintenance or repairs on Antarctic capital equipment in poor condition that was not completed and was deferred or delayed for a future period.

At September 30, 2013, NSF determined that scheduled maintenance on one item of Antarctic capital equipment in poor condition was not completed and was deferred or delayed for a future period. The dollar amount of deferred maintenance for this item was \$1.8 thousand. The item is light, mobile equipment and is considered critical to NSF operations.

Required Supplementary Information

Budgetary Resources by Major Budget Accounts

In the following tables, NSF budgetary information for the fiscal years ended September 30, 2014 and 2013, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts.

Required Supplementary Information
September 30, 2014 and 2013

The Science Appropriations Act, 2014

2014
(Amounts in Thousands)

	<u>Research and Related Activities</u>	<u>Education and Human Resources</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 117,327	32,548	380	5,876	137,313	\$ 293,444
Recoveries of Prior Year Unpaid Obligations	88,389	21,294	10	4,042	5,549	119,284
Other Changes in Unobligated Balance	(29,322)	(13,540)	-	(3,147)	-	(46,009)
Unobligated Balance from Prior Year Budget Authority, Net	176,394	40,302	390	6,771	142,862	366,719
Appropriations	5,801,634	845,438	200,000	324,847	160,576	7,332,495
Spending Authority from Offsetting Collections	90,760	5,100	-	5,861	-	101,721
Total Budgetary Resources	\$ 6,068,788	890,840	200,390	337,479	303,438	\$ 7,800,935
Status of Budgetary Resources						
Obligations Incurred	\$ 5,866,308	842,333	200,000	331,322	167,239	\$ 7,407,202
Unobligated Balance, End of Year						
Apportioned	56,976	15,672	380	799	121,843	195,670
Unapportioned	145,504	32,835	10	5,358	14,356	198,063
Total Unobligated Balance, End of Year	202,480	48,507	390	6,157	136,199	393,733
Total Status of Budgetary Resources	\$ 6,068,788	890,840	200,390	337,479	303,438	\$ 7,800,935
Change in Obligated Balance						
Unpaid Obligations						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 9,058,656	1,670,649	366,884	75,961	299,119	\$ 11,471,269
Obligations Incurred	5,866,308	842,333	200,000	331,322	167,239	7,407,202
Gross Outlays	(5,662,659)	(824,082)	(279,517)	(315,494)	(132,796)	(7,214,548)
Recoveries of Prior Year Unpaid Obligations	(88,389)	(21,294)	(10)	(4,042)	(5,549)	(119,284)
Unpaid Obligations - End of Year, Gross	9,173,916	1,667,606	287,357	87,747	328,013	11,544,639
Uncollected Payments						
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (138,018)	(4,905)	-	(3,579)	-	\$ (146,502)
Change in Uncollected Payments from Federal Sources	21,510	(1,290)	-	3,347	-	23,567
Uncollected Payments from Federal Sources, End of Year	(116,508)	(6,195)	-	(232)	-	(122,935)
Memorandum (non-add) Entries						
Obligated Balance - Start of Year	\$ 8,920,638	1,665,744	366,884	72,382	299,119	\$ 11,324,767
Obligated Balance - End of Year	\$ 9,057,408	1,661,411	287,357	87,515	328,013	\$ 11,421,704
Budget Authority, Gross						
Budget Authority, Gross	\$ 5,892,394	850,538	200,000	330,708	160,576	\$ 7,434,216
Actual Offsetting Collections	(112,269)	(3,811)	-	(9,208)	-	(125,288)
Change in Uncollected Customer Payments from Federal Sources	21,510	(1,290)	-	3,347	-	23,567
Budget Authority, Net	\$ 5,801,635	845,437	200,000	324,847	160,576	\$ 7,332,495
Gross Outlays						
Gross Outlays	\$ 5,662,659	824,082	279,517	315,494	132,796	\$ 7,214,548
Actual Offsetting Collections	(112,269)	(3,811)	-	(9,208)	-	(125,288)
Net Outlays	5,550,390	820,271	279,517	306,286	132,796	7,089,260
Distributed Offsetting Receipts	-	-	-	-	(35,105)	(35,105)
Net Agency Outlays	\$ 5,550,390	820,271	279,517	306,286	97,691	\$ 7,054,155

Required Supplementary Information
September 30, 2014 and 2013

The Science Appropriations Act, 2013

2013
(Amounts in Thousands)

	<u>Research and Related Activities</u>	<u>Education and Human Resources</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 98,939	29,090	686	6,993	141,432	\$ 277,140
Recoveries of Prior Year Unpaid Obligations	119,486	23,504	12	3,180	4,791	150,973
Other Changes in Unobligated Balance	(31,436)	(14,370)	-	(2,967)	-	(48,773)
Unobligated Balance from Prior Year Budget Authority, Net Appropriations	186,989	38,224	698	7,206	146,223	379,340
Spending Authority from Offsetting Collections	5,543,716	833,312	196,170	310,916	156,207	7,040,321
	104,052	636	-	6,828	8	111,524
Total Budgetary Resources	\$ 5,834,757	872,172	196,868	324,950	302,438	\$ 7,531,185
Status of Budgetary Resources						
Obligations Incurred	\$ 5,717,430	839,624	196,488	319,074	165,125	\$ 7,237,741
Unobligated Balance, End of Year						
Apportioned	9,346	182	373	150	134,982	145,033
Unapportioned	107,981	32,366	7	5,726	2,331	148,411
Total Unobligated Balance, End of Year	117,327	32,548	380	5,876	137,313	293,444
Total Status of Budgetary Resources	\$ 5,834,757	872,172	196,868	324,950	302,438	\$ 7,531,185
Change in Obligated Balance						
Unpaid Obligations						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 9,507,545	1,646,027	415,110	77,139	300,928	\$ 11,946,749
Obligations Incurred	5,717,430	839,624	196,488	319,074	165,125	7,237,741
Gross Outlays	(6,046,833)	(791,498)	(244,702)	(317,072)	(162,143)	(7,562,248)
Recoveries of Prior Year Unpaid Obligations	(119,486)	(23,504)	(12)	(3,180)	(4,791)	(150,973)
Unpaid Obligations - End of Year, Gross	9,058,656	1,670,649	366,884	75,961	299,119	11,471,269
Uncollected Payments						
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (125,574)	(10,733)	-	(189)	-	\$ (136,496)
Change in Uncollected Payments from Federal Sources	(12,444)	5,828	-	(3,390)	-	(10,006)
Uncollected Payments from Federal Sources, End of Year	(138,018)	(4,905)	-	(3,579)	-	(146,502)
Memorandum (non-add) Entries						
Obligated Balance - Start of Year	\$ 9,381,971	1,635,294	415,110	76,950	300,928	\$ 11,810,253
Obligated Balance - End of Year	\$ 8,920,638	1,665,744	366,884	72,382	299,119	\$ 11,324,767
Budget Authority and Outlays, Net						
Budget Authority, Gross	\$ 5,647,768	833,948	196,170	317,744	156,215	\$ 7,151,845
Actual Offsetting Collections	(91,608)	(6,464)	-	(3,437)	(9)	(101,518)
Change in Uncollected Customer Payments from Federal Sources	(12,444)	5,828	-	(3,390)	-	(10,006)
Budget Authority, Net	\$ 5,543,716	833,312	196,170	310,917	156,206	\$ 7,040,321
Gross Outlays	\$ 6,046,833	791,498	244,702	317,072	162,143	\$ 7,562,248
Actual Offsetting Collections	(91,608)	(6,464)	-	(3,437)	(9)	(101,518)
Net Outlays	5,955,225	785,034	244,702	313,635	162,134	7,460,730
Distributed Offsetting Receipts	-	-	-	-	(43,584)	(43,584)
Net Agency Outlays	\$ 5,955,225	785,034	244,702	313,635	118,550	\$ 7,417,146

Other Information

Schedule of Spending

For the Years Ended September 30, 2014 and 2013

The Schedule of Spending (SOS) was developed to make information about government spending more accessible and transparent to the public. To help achieve this goal, specific line items found in the Statement of Budgetary Resources (SBR), which relate to government spending, have been simplified and reorganized to help readers better understand accounting terminology. The focus of the SOS is to provide a user-friendly report that answers the following questions:

- 1) **What money is available to spend?** This section ties directly to the SBR and indicates the total resources available less funds that were unobligated or unavailable for spending.
- 2) **How was the money spent/issued?** This section presents total obligations incurred and shows the most significant goods or services purchased, as well as payment types, by appropriation category. The Other line is comprised of miscellaneous management expenses.
- 3) **Who did the money go to?** This section presents total obligations incurred by the type of entity the funds were awarded to. The presentation is similar to the RSSI Investments in Research and Human Capital Activities section, however the SOS presents performance organization data for new obligations incurred and the RSSI presents performance organization data for expenditures incurred.
- 4) **How does the SOS compare to the SBR and USASpending.gov?** This section describes the similarities and differences between the Schedule of Spending, Statement of Budgetary Resources and the USASpending.gov website.

National Science Foundation
Schedule of Spending
For the Year Ended September 30, 2014
(Amounts in Thousands)

What Money is Available to Spend?

Total Resources	\$ 7,800,935
Less Amount Available but Not Agreed to be Spent	195,670
Less Amount Not Available to be Spent	198,063
Total Amounts Agreed to be Spent	\$ <u>7,407,202</u>

How Was the Money Spent/Issued?	<u>Research and</u>	<u>Education and</u>	<u>Major</u>	<u>OIG, AOAM</u>	<u>Special and</u>	<u>Total</u>
	<u>Related Activities</u>	<u>Human</u>	<u>Research</u>	<u>and NSB</u>	<u>Donated</u>	
		<u>Resources</u>	<u>Equipment</u>			
Compensation and Benefits	\$ 969	134	-	216,645	10	217,758
Travel and Transportation of Persons	13,996	1,819	-	5,346	246	21,407
Contracts	522,133	24,576	125	74,393	5,180	626,407
Rent, Communications, and Utilities	118	76	-	34,907	13	35,114
Grants, Subsidies and Contributions	5,329,092	815,728	199,875	30	161,789	6,506,514
Other	-	-	-	1	1	2
Total Amounts Agreed to be Spent	\$ <u>5,866,308</u>	<u>842,333</u>	<u>200,000</u>	<u>331,322</u>	<u>167,239</u>	<u>7,407,202</u>

Who did the Money go to?

Universities	\$ 5,472,779
Industry	313,999
Federal Agencies	224,664
Small Business	225,609
FFRDC	218,481
Non- Profit	523,650
Other	428,020
Total Amounts Agreed to be Spent	\$ <u>7,407,202</u>

National Science Foundation
Schedule of Spending
For the Year Ended September 30, 2013
(Amounts in Thousands)

What Money is Available to Spend?

Total Resources	\$ 7,531,185
Less Amount Available but Not Agreed to be Spent	145,033
Less Amount Not Available to be Spent	148,411
Total Amounts Agreed to be Spent	\$ 7,237,741

How Was the Money Spent/Issued?

	<u>Research and Related Activities</u>	<u>Education and Human Resources</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Compensation and Benefits	\$ 744	138	-	213,858	8	214,748
Travel and Transportation of Persons	13,088	2,262	18	4,850	223	20,441
Contracts	491,504	25,396	4,666	68,727	17,893	608,186
Rent, Communications, and Utilities	145	49	-	31,523	14	31,731
Grants, Subsidies and Contributions	5,211,949	811,779	191,804	113	146,948	6,362,593
Other	-	-	-	3	39	42
Total Amounts Agreed to be Spent	\$ 5,717,430	839,624	196,488	319,074	165,125	7,237,741

Who did the Money go to?

Universities	\$ 5,336,051
Industry	305,327
Federal Agencies	215,581
Small Business	246,230
FFRDC	182,544
Non- Profit	499,570
Other	452,437
Total Amounts Agreed to be Spent	\$ 7,237,741

How Does the SOS Compare to the SBR and USASpending.gov?

The SOS, Statement of Budgetary Resources (SBR) and the USASpending.gov website all serve a purpose to provide transparency to the general public regarding how federal agencies obtain funding and where those funds are spent. These reports display NSF spending information at various levels of detail to provide a wide range of information to the readers. The SBR is prepared using the United States Standard General Ledger (USSGL) trial balance and provides information about how budgetary resources were made available as well as their status at the end of the period. Data reported on the SBR is ultimately reconcilable with data reported in the Budget of the United States Government. The SOS presents total budgetary resources and the total amounts agreed to be spent which equates to fiscal year-to-date obligations reported on the SBR. This schedule provides the reader with detailed agency information that describes the types of activities NSF's resources will be used for and who these resources will be given to. Like the SOS, USASpending.gov also provides agency obligation information on awards and contracts that have been obligated over the past ten fiscal years. Variances between USASpending.gov and SOS data can be attributed to the following:

- USASpending.gov includes obligation information for contracts and grants, only. The SOS includes additional obligation information to include travel, employee salaries and benefits, and rent.
- USASpending.gov includes grant and contract data associated with specific Budget Object Classes. The SOS classifies a larger population of Budget Object Classes as a grant or contract.
- USASpending.gov excludes contracts where the total amount funded does not exceed \$25.0 thousand. The SOS includes all contracts, regardless of dollar value.
- USASpending.gov does not include awards made to other Federal agencies via Outgoing Interagency Agreements (IAA); whereas, the SOS includes these awards.
- The SOS includes accruals and other financial information applicable to, but posted subsequent to September 30, 2014 and 2013. USASpending.gov data is based on financial information that is included in the financial system on September 30.