



INSE

Chapter 2

Financials



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



Credit: Sandy Schaeffer

This is a time of extraordinary challenges for all federal agencies, shaped by national fiscal austerity, tightened federal budgets, and demands for increased efficiency, accountability, and transparency to U.S. taxpayers. Over the past fiscal year and looking to FY 2014 and beyond, NSF is prioritizing work, eliminating or scaling back the scope of some non-critical activities, and implementing new ways of getting the job done. We are adopting creative monitoring tools, innovative and productive uses of virtual technologies, and setting priorities so that we can do “less with less” while continuing to advance the agency’s core mission.

I am pleased to report that for fiscal year (FY) 2013 the National Science Foundation (NSF) received its 16th consecutive unqualified audit opinion, affirming that NSF’s financial statements for the year ended September 30, 2013, were presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. The audit report included no material weaknesses. However, it included one repeat significant deficiency related to the monitoring of construction-type cooperative agreements. NSF continues to work to strengthen controls for awarding and managing these agreements, including working with the Office of Inspector General (OIG) to find agreement on the oversight of cooperative agreements and contingency budgets and resolve audit findings. Although we remain in disagreement with this significant deficiency, we are committed to continuing this year’s progress into the future. In FY 2013, we made key improvements to controls and facility oversight, several of which are discussed below, and we look forward to continuing our collaboration with the OIG to improve our operations and financial management. A more detailed discussion about how we are addressing this significant deficiency can be found in Management’s Response to the FY 2013 Audit Report, which appears elsewhere in this report.

Noteworthy financial operations and management efforts undertaken during the year include the following:

- NSF’s Award Cash Management Service (ACM\$) is a new approach to award payments and post-award financial processes. ACM\$ transitions financial processing of award payments from the “pooling” method to a grant-by-grant method, enabling awardee institutions to submit award-level payment and expenditure amounts each time funds are requested. As a result, ACM\$ eliminates the need for institutions to submit quarterly Federal Financial Reports. Transitioning to ACM\$ gives NSF better and timelier access to financial data, funds status monitoring, and expenditure reports, all which contribute to more transparency and accountability in the stewardship of federal funds.
- As the first rotating member on the Council on Financial Assistance Reform (COFAR), NSF partnered with OMB and senior policy officials from the eight federal agencies that provide the largest amounts of financial grants assistance to help develop and advance federal grants policy. We worked extensively on the OMB proposal for the reform of policies relating to grants and cooperative agreements, including cost principles and administrative requirements. Looking forward, NSF will continue its leadership role in the federal grants community. In 2014, NSF will complete its two-year COFAR term, but will participate in its federal stakeholder group, the

Grants & Loans Committee for E-gov, as the only non-COFAR agency to have been a COFAR member.

- NSF launched the Award Manager Dashboard, the first tool built on NSF's data warehouse and business intelligence platform. Award Manager provides staff with easy access to accurate, well-defined award information, including detailed financial information to support award and post-award management activities. The tool provides a single access point to formerly inaccessible multi-sourced data in easy-to-comprehend formats so NSF staff can make quick informed business decisions. Through rich visualization, reports, and enhanced analytic capabilities, users can effectively manage their award portfolio, spot portfolio outliers, and apply drill down capabilities to view detailed award information.
- NSF continued to make substantial progress in its financial systems modernization initiative known as iTRAK. Over the course of the year, there were a number of accomplishments that will support a successful implementation process: a Governance Structure was established including the creation of an executive panel to expedite decision making; the agency's requirements for technical and reporting capabilities were confirmed; the data conversion and reporting strategies were created; and a comprehensive change and communication strategy for NSF users and stakeholders was developed.
- The concentration of award processing during the late summer has always been a significant workload issue for NSF. An agency-wide working group developed strategies to level-out the award workload across all quarters of the fiscal year, including shifting work cycles and setting deadlines, making information technology improvements, and improving operating procedures. NSF's Business and Operations Advisory Committee has endorsed the working group's findings and in FY 2014, implementation of several pilot efforts will begin. Leveling award workload will result in improved business practices across NSF in both the business offices and program directorates, and it will do the same for the awardee community.

NSF's commitment to accountability reporting, transparency, and good government was recently recognized by the Association of Government Accountants, which awarded NSF's *FY 2012 Performance and Financial Highlights* (www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf13003) with a Certificate of Excellence in Member-Centric Reporting. Sound business operations and practices underpin NSF's programmatic activities and are critical to the achievement of the agency's mission and investments in science and engineering research and education that help ensure our nation's security and economic future.

As always, I welcome your feedback on how we can make this report more informative to our stakeholders and readers.



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

December 16, 2013



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

TO: Dr. Cora Marrett
Director (Acting), National Science Foundation

Dr. Dan E. Arvizu
Chair, National Science Board

FROM: Allison Lerner *Allison Lerner*
Inspector General, National Science Foundation

DATE: December 12, 2013

SUBJECT: Audit of the National Science Foundation's
Fiscal Years 2013 and 2012 Financial Statements

This memorandum transmits CliftonLarsonAllen LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2013 and 2012.

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 an audit of NSF's Fiscal Years 2013 and 2012 financial statements. The contract required that the audit be performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and the United States Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

CliftonLarsonAllen issued an unqualified 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, but did report a significant deficiency related to NSF's monitoring of construction type cooperative agreements that was initially identified in 2011. CliftonLarsonAllen also reported that there were no instances of noncompliance with applicable provisions of laws and regulations 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 12, 2013, 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 auditor's report dated December 12, 2013, and the conclusions expressed in the report. We do not express any opinion on NSF's financial statements, or conclusions on the effectiveness of internal control, on compliance with laws and regulations, or on whether NSF's financial management systems substantially complied with FFMIA.

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

Attachment

cc: Dr. G. P. Peterson, Chair, Audit and Oversight Committee

INDEPENDENT AUDITORS' REPORT

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

In our audits of the fiscal years (FY) 2013 and 2012 financial statements of National Science Foundation (NSF), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- One significant deficiency in internal control over financial reporting; and
- No instances of reportable noncompliance with applicable provisions of certain laws and regulations tested, including the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) Management's Discussion and Analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) an assessment of the prior year control deficiency, and (6) management's response to this Independent Auditor's Report.

Report on the Financial Statements

We have audited the accompanying financial statements of NSF, which comprise the balance sheets as of September 30, 2013 and 2012, 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. The objective of our audit was to express an opinion on the fairness of these financial statements.

Management's Responsibility for the Financial Statements

NSF management is responsible for the (1) preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the RSI in accordance with the prescribed accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI; (4) 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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.; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*, (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of NSF and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) considered the NSF process for evaluating and reporting on internal control under the Federal Managers Financial Integrity Act (FMFIA) and financial management systems under FFMIA; (5) tested whether NSF's financial management systems substantially complied with the three FFMIA requirements referred to above; (6) tested compliance with applicable provisions of certain laws and regulations; (7) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (8) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (9) evaluated the overall presentation of the financial statements; (10) conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures; (11) read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and (12) performed such other procedures as we considered necessary in the circumstances.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Science Foundation as of September 30, 2013 and 2012, 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. require that NSF's MD&A, and other RSI (including stewardship information) 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 the Federal Accounting Standards Advisory Board (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

INDEPENDENT AUDITORS' REPORT (Continued)

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 basic financial statements. This information, including the Schedule of Spending, 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 internal control or on management's assertion 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 assertion 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 a certain deficiency in internal control, described in Exhibit A, that we consider to be a significant deficiency.

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 applicable provisions of certain laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

INDEPENDENT AUDITORS' REPORT (Continued)

express such an opinion. The results of our tests, exclusive of those required by FFMIA as discussed below, disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 14-02.

Systems Compliance with FFMIA Requirements

Under FFMIA, we are required to report whether the financial management systems used by NSF substantially comply 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. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. 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 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 application of 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 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 compliance with FFMIA requirements, and (4) ensuring compliance with other applicable provisions of certain laws and regulations.

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; (3) testing compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the financial statements and other applicable laws for which OMB Bulletin 14-02 requires testing; and (4) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

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 and regulations applicable to NSF. We limited our tests of compliance to applicable provisions of certain laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to NSF's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

INDEPENDENT AUDITORS' REPORT (Continued)

Assessment of Prior Year's Control Deficiency

We have reviewed the status of NSF's corrective actions with respect to the significant deficiency finding included in the prior year's Independent Auditors' Report, dated November 9, 2012. Some progress has been made in FY 2013 by NSF in addressing the significant deficiency noted in the FY 2012 Independent Auditors' Report; however, many of the conditions detailed in that report continue to exist and, along with others, is reported herein as a significant deficiency. The status of each specific prior year finding is presented in Exhibit B.

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 and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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.

Management's Response to Independent Auditor's Report

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

CliftonLarsonAllen LLP

Calverton, Maryland
December 12, 2013

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit A

National Science Foundation

Significant Deficiency

September 30, 2013

Monitoring of Construction Type Cooperative Agreements

Background and Control Deficiency Criteria:

As of September 30, 2013, NSF had 16 active construction type cooperative agreements aggregating approximately \$1.9 billion in obligations, which includes approximately \$303 million in contingency funds, representing approximately 16 percent of the total award obligation amount.

Beginning with our fiscal year (FY) 2010 Audit Report, we noted a variety of deficiencies in NSF's internal controls relating to the monitoring of construction type cooperative agreements. In FY 2011 and 2012, NSF engaged in discussions with NSF Office of Inspector General (OIG) and Defense Contract Audit Agency (DCAA) regarding the concerns raised in the prior year audit reports. However, agreement on a plan of action was not achieved, and both our tests and additional reports issued by the OIG in FY 2012 reconfirmed the existence of these deficiencies. Accordingly, these control deficiency matters were repeated in our FY 2012 Audit Report.

During FY 2013, some progress was made by NSF in designing procedures to rectify certain of the weaknesses noted in prior year audits reports and the OIG Alert Memo as it pertains to future awards of cooperative agreements; however, little progress has been made in addressing the issues concerning current cooperative agreements with contingency funding as of September 30, 2013.

The following section describes the specific conditions that continue to exist in FY 2013.

Conditions:

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

Beginning with our FY 2010 Audit Report and continuing in our FY 2012 Audit Report, we noted that DCAA issued audit reports and inadequacy memoranda (DCAA communications) through FY 2012 on behalf of the NSF OIG that questioned the allowability of approximately \$223 million in contingency costs included in proposal budgets related to construction type cooperative agreements. DCAA specifically indicated that the contingency costs were unallowable for the following reasons:

- a) Budgeted proposal costs did not meet the definition for "contingency" costs pursuant to standard cost principles; used by the Office of Management and Budget (OMB) in its accounting guidance to federal agencies; i.e. contingency costs are only allowed for events the occurrence of which can be foretold with certainty as to time, intensity, or with an assurance of their happening (as detailed in Title 2 Code of Federal Regulations); and
- b) Supporting documentation for budgeted proposal costs was inadequate.

In certain of these communications, DCAA also raised the following concerns:

- a) Awardees could draw down contingency funds without advance approval by NSF;
- b) Proposals do not have adequate supporting documentation for proposed costs; and
- c) Deficiencies in an awardee's accounting system and estimating practices.

INDEPENDENT AUDTORS' REPORT (Continued)

Exhibit A (Continued)

DCAA also noted in an audit of a proposal that the inadequacies were so significant that the five year \$434 million proposal was not considered acceptable for negotiation of a fair and reasonable price\award. DCAA indicated that the price and/or cost analysis provided by the awardee for all costs was insufficient due to (a) reliance on historical data that was not current; (b) lack of adequate documentation of the analyses in general; and (c) less than sufficient competition by offerors. DCAA is still in the process of reviewing and assessing additional information provided by another awardee for a proposal that was previously determined to be unacceptable for audit. Pending the resolution of these fundamental matters, no additional audit work was performed by DCAA regarding these proposals in FY 2013.

NSF continues to address the causes of the above conditions; however, these conditions remain largely uncorrected at September 30, 2013.

2. OIG Audit Report

In our FY 2012 Audit Report, we also discussed the NSF OIG report issued in September 2012 (Report No. 12-2-010) on its *Audit of NSF's Management of Contingency in the EarthScope Awards* which examined cooperative agreements that have been closed. The primary findings of the OIG report were:

- a) The \$10 million in proposed contingency costs were not supported by cost data and not compliant with OMB costs principles;
- b) Instances in which NSF approved the use of some contingency funds for matters that did not appear to represent the materialization of contingent events;
- c) Some awardees were not tracking the use of the contingency funds within their accounting systems; and
- d) The format of the cost proposal submitted by the awardee did not clearly identify allowable and unallowable costs or the specific amount allocated for contingency.

NSF continues to address the causes of the above conditions; however, the conditions remain largely uncorrected at September 30, 2013.

3. OIG Alert Memo

Also, in our FY 2012 Audit Report, we discussed the NSF OIG's Alert Memo issued in September 2012 (Report No. 12-6-001), *NSF's Management of Cooperative Agreements*. The Alert Memo, based in part on the findings from the aforementioned DCAA audits and a separate OIG audit, reiterated concerns about the adequacy of NSF's review of proposed costs, the proposer's financial management capabilities, and NSF's post-award monitoring. The main points of the OIG Alert Memo were as follows:

- a) NSF does not require a proposal audit for high-risk, high-dollar cooperative agreements prior to award to ensure that awardee's cost estimates are adequate to form an acceptable basis for the negotiation of a fair and reasonable price.
- b) NSF does not require audits of the accounting systems of awardees that will be managing large cooperative agreements, prior to making awards to ensure that they are adequate to bill the government.
- c) NSF does not require the use of OMB's SF 424C Form (Budget Information - Construction Programs), which identifies allowable and unallowable costs as well as amounts for contingencies, when proposals are submitted. This situation increases the risk that NSF could be unknowingly funding unallowable costs, especially if an awardees' accounting system has not been determined to be adequate by the cooperative agreement officer.

INDEPENDENT AUDTORS' REPORT (Continued)

Exhibit A (Continued)

- d) Large cooperative agreement awardees are not required to provide NSF with annual incurred cost submissions unless the awardee is also performing under a federal cost-reimbursement contract for which NSF is the cognizant agency for the contract, nor does NSF routinely have those submissions audited to ensure that the costs claimed are allowable. Absent incurred cost submissions and audits, NSF cannot adequately monitor awardees' expenditure of government funds during the active award stage, compounding the concern that unallowable costs could be charged to awards and remain undetected.
- e) Awardees did not separately account for contingency expenditures in their accounting records, therefore they could not demonstrate how their contingency funds were actually spent in comparison to how they were budgeted and approved.

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

4. Internal Controls for Monitoring Use of Contingency Funds

In addition to the DCAA and OIG audits discussed above, our specific internal control testing procedures, which included the examination of several cooperative agreements with contingency funds, noted the following exceptions:

- a) Awardees can draw down on the contingency funds budget without prior NSF approval, if the amount is below an established threshold. Above this established threshold, per NSF policy, prior approval is required to draw down on the contingency funds budget. However, systematic barriers to prevent an awardee from drawing down an amount in excess of the threshold without prior approval were not in place at September 30, 2013. A system control of that nature would reduce the risk of contingency funds being used for unallowable purposes.
- b) For certain cooperative agreements examined, we noted the following:
 - The awardee did not report the allocation of the contingency budget authority to specific project Work Breakdown Structure (WBS) elements on a monthly basis as required by NSF. 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 the 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 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, 2013.

5. Additional Findings Noted During FY 2013 Tests of Internal Control

Our FY 2013 testing also noted the following:

- a) In October 2012, DCAA issued an incurred cost audit report of a large NSF cooperative agreement at a major university. The major issue in the report was that the university's contingency costs were not accumulated and tracked in a manner consistent with how such costs were originally estimated and did not separately track and account for these funds in its formal accounting, memoranda or subsidiary records. As a result, DCAA concluded that the university's cost accounting practices

INDEPENDENT AUDTORS' REPORT (Continued)

Exhibit A (Continued)

used in accumulating and reporting costs were not consistent with its practices used in estimating costs. Accordingly, performing a comparison of the university's actual contingency expenditures with its estimated contingencies was not feasible.

- b) We noted that NSF's accounting system shows the cooperative agreement 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, this information does not track the contingency funds to the actual expense incurred by the awardee. NSF does not track the expenditure of contingency funds to ensure that they are in line with the amount of contingency funds budgeted in the award. This lack of control increases the risk that contingency funds may be used for non-contingent type expenditures which are unallowable.

In summary, as noted above, the causes of the prior year conditions described in the forepart of this Significant Deficiency remain largely uncorrected at September 30, 2013, 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 cooperative agreements.

As a result, the DCAA communications, NSF OIG audit report and Alert Memo, and the results of our internal control testing in FY 2013 continue to indicate significant risks related to NSF's administration of cooperative agreements with budgeted contingency funds in terms of the validity of cost proposals, the allowability of contingency funds budgeted, and the adequacy of NSF's controls over monitoring cooperative agreements that include contingency fund provisions.

The status of each of the recommendations relating to the repeat conditions noted above and NSF's corrective action, which are not planned for implementation until FY 2014, are summarized in **Exhibit B** of this Audit Report.

Recommendations:

NSF continues to disagree with the severity of certain conditions in reports and other communications issued by DCAA and the OIG, or has been unable to fully implement changes to its cooperative agreement award and monitoring procedures. Accordingly, we recommend that NSF strive to resolve these disagreements and continue to focus its efforts on resolving conditions initially identified in our FY 2010 Audit Report, in the following areas:

1. Work closely with the OIG to quickly resolve remaining conceptual differences of opinion or actively participate in the final OMB A-50 Audit Follow-up resolution process.
2. Closely monitor the finalization of new OMB regulations (Federal Register -Vol. 77, No. 39, 11778) and reform its policies relating to grants and cooperative agreements regarding the cost principles, including those relating to contingency costs, once such regulations are finalized.
3. Prior to the finalization of OMB's proposed new rules, continue to emphasize to its Cooperative Agreement awardees that: a) proposal cost data must be prepared and maintained in accordance with contingency cost definitions provided for in Title 2 Code of Federal Regulations; b) all cost proposal data should be in a format that both reconciles to the underlying source data and is auditable; and 3) failure to do so would result in suspension of draw privileges.

INDEPENDENT AUDTORS' REPORT (Continued)

Exhibit A (Continued)

4. Fully implement its corrective action plans and test the effectiveness of such new policies and procedures in FY 2014. Such plan should include:
 - a) Revisions to its proposal review process to ensure that the issues raised by DCAA in its reports are considered by NSF in the future before accepting an entity's cost proposal as a basis for the issuance of an award/cooperative agreement;
 - b) Strengthening controls over all cooperative agreement 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 following OIG reports:
 - Report No. 12-2-010 - *Audit of NSF's Management of Contingency in the EarthScope Awards.*
 - Alert Memo (Report No. 12-6-001), *NSF's Management of Cooperative Agreements.*
5. Continue to work with the OIG to resolve findings in its Incurred Cost Audit completed in September 2012.
6. Implement a process or control to track separately, within NSF's accounting system, the use of contingency funds in new awards to ensure that contingency funds are used for contingent type events and are, therefore, allowable.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT B

**National Science Foundation
Auditors' Assessment of Prior Year Significant Deficiency
September 30, 2013**

The causes of the conditions in the FY 2012 Audit Report continue to require resolution at September 30, 2013, either due to management's continued disagreement with OIG's interpretation of OMB guidance on contingency, the time necessary for implementation of new procedures to rectify the conditions, or that management has not identified specific corrective actions that would apply to existing grant awards.

Our assessment of the current status of the each of the FY 2012 recommendations related to the control deficiency identified in the prior year audit is presented below:

FY 2012 Recommendations	FY 2013 Status
<p><u>Significant Deficiency - Monitoring of Construction Type Cooperative Agreements</u> NSF focus its efforts in the following areas:</p> <ol style="list-style-type: none"> 1. OMB recently proposed new rules in the Federal Register (Vol. 77, No. 39, 11778) to reform Federal policies relating to grants and cooperative agreements regarding the cost principles, including those relating to contingency costs. NSF should closely monitor the finalization of these new regulations and evaluate the impact that such new policies have on these conditions from a prospective basis and revise its operating procedures as necessary. 2. Prior to the finalization of OMB's proposed new rules, NSF should reemphasize to its Cooperative Agreement awardees that proposal cost data must be prepared and maintained in accordance with contingency cost definitions provided for in Title 2 Code of Federal Regulations. All cost proposal data should be in a format that both reconciles to the underlying source data and is auditable. Failure to do so should result in suspension of draw down privileges. 3. NSF should develop a corrective plan to address DCAA's final audit findings. Such plan should include revisions to its proposal review process to ensure that the issues raised by DCAA in its reports are considered by NSF in the future <u>before</u> accepting an entity's cost proposal as a basis for the issuance of an award/cooperative agreement. 	<ol style="list-style-type: none"> 1. OMB's proposed new rules have not been finalized. Accordingly, this recommendation remains open. In the near term NSF must focus its attention to recommendation # 2. 2. NSF has not taken action to address the issues identified in both the DCAA reports and OIG Alert Memo. NSF is waiting for the finalization of the OMB guidance. Accordingly, this recommendation remains open. 3. There appears to be an impasse on the resolution of this matter. It is related to recommendations in the OIG report numbers 12-2-010 and 12-6-001 which are being elevated to the Deputy Director for resolution (See #7 below). Accordingly, this recommendation remains open.

INDEPENDENT AUDITORS' REPORT (Continued)

Exhibit B (Continued)

<p>4. NSF should strengthen controls over all cooperative agreement disbursements, especially with respect to the oversight of draws on contingency funds.</p> <p>5. NSF should ensure that the control requiring the awardees 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 has been implemented and is operating effectively.</p> <p>6. NSF should develop and implement a formal policy for documenting NSF's approval of the awardee's process for managing contingency expenditures and requests above the stipulated threshold.</p> <p>7. NSF should develop an Action Plan to address the recommendations noted by the OIG in its:</p> <ul style="list-style-type: none">a) Report No. 12-2-010 - <i>Audit of NSF's Management of Contingency in the EarthScope Awards.</i>b) Alert Memo (Report No. 12-6-001), <i>NSF's Management of Cooperative Agreements.</i>	<p>4. NSF's has implemented a new grant payment system (ACM\$). However, management has indicated that the system's features intended to address the relevant condition will not be fully implemented until FY 2014. Accordingly, this recommendation remains open.</p> <p>5. NSF has begun preparing procedures to address this matter. However the procedures will not be implemented until FY 2014 and, accordingly, the recommendation remains open.</p> <p>6. NSF has begun preparing procedures to address this matter. However, the procedures will not be implemented until FY 2014 and, accordingly, the recommendation remains open.</p> <p>7. The IG notified NSF management that its corrective active plan is largely unacceptable for both reports and its reports will be elevated to the NSF Deputy Director for resolution in January 2014. Accordingly, several of the OIG recommendations remain open.</p>
---	---

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT C NATIONAL SCIENCE FOUNDATION Management's Response to Independent Auditors' Report September 30, 2013



OFFICE OF BUDGET, FINANCE & AWARD MANAGEMENT

MEMORANDUM

Date: DEC 12 2013
To: Allison Lerner, Inspector General
From: Martha A. Rubenstein, Chief Financial Officer
Subject: Management's Response to Independent Auditor's Report for Fiscal Year 2013

I am gratified that the National Science Foundation (NSF) received its 16th consecutive clean audit opinion. This accomplishment is the result of the hard work of many individuals throughout the Foundation. The completion of the audit in a timely fashion is especially commendable because of the challenges we faced this year due to the lapse in appropriations and the resulting furlough of the federal workforce. I also appreciate the work performed by your staff and CliftonLarsonAllen.

The focus of this response will be the one Significant Deficiency identified in the audit – Monitoring of Construction Type Agreements. NSF continues to work to strengthen our controls for awarding and managing construction type cooperative agreements. In addition, we worked with the Office of Inspector General (OIG) to find agreement on the oversight of cooperative agreements and contingency budgets and resolve audit findings. Even though we continue to disagree with this Significant Deficiency, we are strongly committed to continuing this year's progress into the future.

The following are some of the key improvements we made to controls for monitoring cooperative agreements and to general facility oversight:

Implementation of the Award Cash Management Service (ACM\$). ACM\$ allows NSF to manage financial data at the award and institution level on a real-time basis thus enabling new controls at that level. For example, NSF may limit the ability of an awardee institution to drawdown cash for one or more specific awards within its NSF-funded portfolio, which enhances the Foundation's ability to fine-tune its monitoring efforts.

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

Progress on Corrective Action Plans (CAPs). Notwithstanding the continued disagreement between our offices on the full range of activities that will be necessary to strengthen our monitoring of both future and current large facility awards, NSF is beginning work to implement the improvements set forth in the CAPs that were drafted to address the OIG reports issued in September 2012. (Report No. 12-2-010 *Audit of NSF's Management of Contingency in the EarthScope Awards*; Report No. 12-6-001 *NSF's Management of Cooperative Agreements*.) We continue to see the implementation of the strengthened procedures set forth in the CAPs as key components of our financial oversight activities.

Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (including Single Audit Act). As NSF's Chief Financial Officer, I have been the agency's senior policy representative to the Council on Financial Assistance Reform (COFAR), which is co-chaired by the OMB Controller. OMB, through the COFAR, sponsored a two-year effort to review and consolidate all financial, administrative, and audit requirements governing federal financial assistance. All federal agencies that use assistance mechanisms will be required to follow the consolidated Omni-Circular once it is released. The publicly available draft Circular includes a provision that, when finalized, affirms and clarifies the allowability of including contingency in proposal budgets for assistance awards.

Assessment of NSF-Supported Large Research Facilities. NSF has ten-plus years of experience with our established large facilities oversight system. In December 2012, the Director commissioned a review of the agency's facility portfolio, from conceptualization to construction to operation and sun-setting, including the importance of risk analysis and cost estimation and other-state-of-the-art project management practices required for accountability and transparency. In March 2013 the *Major Multi-User Research Facilities Report*, was delivered to the NSF Director and the National Science Board for consideration. The report contains recommendations on a range of issues related to these awards, including the sharing of best practices related to facility stewardship such as the GAO Cost Estimating and Assessment Guide.

We look forward to continued collaboration with the OIG to improve our operations and maintain financial management excellence. 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. Cora B. Marrett



National Science Foundation

PRINCIPAL FINANCIAL STATEMENTS

As of and for the Years Ended
September 30, 2013 and 2012

Principal Financial Statements
September 30, 2013 and 2012

National Science Foundation
Balance Sheet
As of September 30, 2013 and 2012
(Amounts in Thousands)

Assets	<u>2013</u>	<u>2012</u>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 11,586,927	\$ 12,047,148
Accounts Receivable	28,186	6,479
Advances	52,656	16,307
Total Intragovernmental Assets	<u>11,667,769</u>	<u>12,069,934</u>
Cash and Other Monetary Assets (Note 2)	31,284	40,245
Accounts Receivable, Net	2,833	184
Advances	228	1,379
General Property, Plant and Equipment, Net (Notes 3 and 4)	268,489	276,900
Total Assets	\$ <u>11,970,603</u>	\$ <u>12,388,642</u>
Liabilities		
Intragovernmental Liabilities		
Advances From Others	\$ 22,319	\$ 7,552
Employer Contributions	825	706
FECA Employee Benefits	408	367
Other Intragovernmental Liabilities	3,010	-
Total Intragovernmental Liabilities	<u>26,562</u>	<u>8,625</u>
Accounts Payable	95,919	61,993
FECA Employee Benefits	1,424	1,366
Environmental and Disposal Liabilities (Note 6)	18,247	-
Accrued Liabilities - Grants (Note 7)	91,091	445,563
Accrued Liabilities - Contracts and Payroll	8,813	8,081
Accrued Annual Leave	17,790	17,846
Total Liabilities	\$ <u>259,846</u>	\$ <u>543,474</u>
Net Position		
Unexpended Appropriations - Other Funds	\$ 11,047,853	\$ 11,158,221
Cumulative Results of Operations - Dedicated Collections (Note 8)	368,680	344,204
Cumulative Results of Operations - Other Funds	294,224	342,743
Total Net Position	<u>11,710,757</u>	<u>11,845,168</u>
Total Liabilities and Net Position	\$ <u>11,970,603</u>	\$ <u>12,388,642</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Net Cost
For the Years Ended September 30, 2013 and 2012
(Amounts in Thousands)

Program Costs (Note 9)	<u>2013</u>	<u>2012</u>
Research and Related Activities		
Gross Costs	\$ 6,035,128	\$ 6,134,541
Less: Earned Revenues	<u>(101,802)</u>	<u>(107,478)</u>
Net Research and Related Activities	<u>5,933,326</u>	<u>6,027,063</u>
Education and Human Resources		
Gross Costs	\$ 796,459	\$ 877,922
Less: Earned Revenues	<u>(5,406)</u>	<u>(5,692)</u>
Net Education and Human Resources	<u>791,053</u>	<u>872,230</u>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 225,403	\$ 270,468
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Major Research Equipment and Facilities Construction	<u>225,403</u>	<u>270,468</u>
Costs Not Assigned to Other Programs		
Gross Costs	\$ 167,289	\$ 165,896
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Costs Not Assigned to Other Programs	<u>167,289</u>	<u>165,896</u>
Net Cost of Operations (Notes 9 and 16)	<u>\$ 7,117,071</u>	<u>\$ 7,335,657</u>

The accompanying notes are an integral part of these statements.

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

	<u>2013</u>		
	<u>Funds From</u>		
	<u>Dedicated Collections</u>	<u>All Other</u>	<u>Total</u>
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.

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2012
(Amounts in Thousands)

	<u>2012</u>		
	Funds From		Total
	Dedicated Collections	All Other	
Cumulative Results of Operations			
Beginning Balances (Note 8)	\$ 324,083	348,639	672,722
Adjustments			
Changes in Accounting Principle (Note 6)	-	-	-
Beginning Balances - Adjusted	324,083	348,639	672,722
Budgetary Financing Sources			
Appropriations Used	-	7,162,409	7,162,409
Non-exchange Revenue	-	96	96
Donations	-	47,140	47,140
Appropriated Funds from Dedicated Collections Transferred In / Out (Note 8)	128,986	-	128,986
Other Financing Sources			
Transfers In / (Out) Without Reimbursement	-	-	-
Imputed Financing From Costs Absorbed By Others	-	11,364	11,364
Other	-	(113)	(113)
Total Financing Sources	128,986	7,220,896	7,349,882
Net Cost of Operations (Notes 8 and 9)	(108,865)	(7,226,792)	(7,335,657)
Cumulative Results of Operations (Note 8)	\$ 344,204	342,743	686,947
 Unexpended Appropriations			
Beginning Balances	\$ -	11,330,889	11,330,889
Budgetary Financing Sources			
Appropriations Received	-	7,033,095	7,033,095
Rescissions and Cancelled Appropriation Activity (Note 10)	-	(43,354)	(43,354)
Appropriations Used	-	(7,162,409)	(7,162,409)
Total Budgetary Financing Sources	-	(172,668)	(172,668)
Total Unexpended Appropriations	-	11,158,221	11,158,221
Net Position	\$ 344,204	11,500,964	11,845,168

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Budgetary Resources
For the Years Ended September 30, 2013 and 2012
(Amounts in Thousands)

	<u>2013</u>	<u>2012</u>
Budgetary Resources		
Unobligated Balance - Brought Forward, October 1	\$ 277,140	\$ 228,900
Recoveries of Prior Year Unpaid Obligations	150,973	147,227
Other Changes in Unobligated Balance	<u>(48,773)</u>	<u>(43,353)</u>
Unobligated Balance from Prior Year Budget Authority, Net	379,340	332,774
Appropriations	7,040,321	7,209,317
Spending Authority from Offsetting Collections	111,524	102,899
Total Budgetary Resources (Note 13)	\$ <u>7,531,185</u>	\$ <u>7,644,990</u>
Status of Budgetary Resources		
Obligations Incurred (Note 12 & 13)	\$ 7,237,741	\$ 7,367,850
Unobligated Balance, End of Year		
Apportioned (Note 2)	145,033	158,316
Unapportioned (Note 2 & 13)	<u>148,411</u>	<u>118,824</u>
Total Unobligated Balance, End of Year	293,444	277,140
Total Status of Budgetary Resources	\$ <u>7,531,185</u>	\$ <u>7,644,990</u>
Change in Obligated Balance		
Unpaid Obligations		
Unpaid Obligations - Brought Forward, October 1	\$ 11,946,749	\$ 12,136,894
Obligations Incurred	7,237,741	7,367,850
Gross Outlays	(7,562,248)	(7,410,768)
Recoveries of Prior Year Unpaid Obligations	<u>(150,973)</u>	<u>(147,227)</u>
Unpaid Obligations, End of Year	11,471,269	11,946,749
Uncollected Payments		
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (136,496)	\$ (139,327)
Change in Uncollected Payments from Federal Sources	<u>(10,006)</u>	<u>2,831</u>
Uncollected Payments from Federal Sources, End of Year	(146,502)	(136,496)
Memorandum (non-add) Entries		
Obligated Balance, Start of Year	\$ 11,810,253	\$ 11,997,567
Obligated Balance, End of Year (Note 2)	\$ 11,324,767	\$ 11,810,253
Budget Authority and Outlays, Net		
Budget Authority, Gross	\$ 7,151,845	\$ 7,312,216
Actual Offsetting Collections	(101,518)	(105,730)
Change in Uncollected Customer Payments from Federal Sources	<u>(10,006)</u>	<u>2,831</u>
Budget Authority, Net	\$ <u>7,040,321</u>	\$ <u>7,209,317</u>
Gross Outlays	\$ 7,562,248	\$ 7,410,768
Actual Offsetting Collections	<u>(101,518)</u>	<u>(105,730)</u>
Net Outlays	7,460,730	7,305,038
Distributed Offsetting Receipts (Note 13)	<u>(43,514)</u>	<u>(48,891)</u>
Net Agency Outlays	\$ <u>7,417,216</u>	\$ <u>7,256,147</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.

Pursuant to OMB Circular No. A-136, *Financial Reporting Requirements*, the presentation of the Change in Obligated Balance section in the FY 2013 Statement of Budgetary Resources (SBR) was modified. Certain reclassifications were made to the previously issued FY 2012 SBR to conform to the new format.

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 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. The interest earned on overdue receivables is returned to Treasury at the end of each fiscal year.

In FY 2013, The Science Appropriation Act, 2013 under Public Law 113-6 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. In FY 2013, NSF was affected by the sequestration and across-the-board rescissions. 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 funds into the NSF *Donations Account* and to use both U.S. and foreign funds in that 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 consists 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.

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.

Equipment

5 years	Computers and peripheral equipment, fuel storage tanks, laboratory equipment, and vehicles
7 years	Communications equipment, office furniture and equipment, pumps and compressors
10 or 15 years	Generators, Department of Defense equipment
20 years	Movable buildings (e.g. trailers)

Aircraft and Satellites

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

Buildings and Structures

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

Leases and Leasehold Improvements

In FY 2013, NSF entered into a 56 month lease with GSA under an occupancy agreement for the Headquarter buildings. 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 accountable 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. 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 consists of liabilities to federal agencies, commercial vendors, contractors, and disbursements in transit. *Accounts Payable* to federal agencies, commercial vendors, and contractors are expenses for goods and services received but not yet paid 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 consists of disbursements in transit recorded by NSF but not paid by Treasury.

K. Accrued Liabilities—Grants

As of June 30, 2013, NSF adopted the full use of a new grantee cash request and expenditure reporting process, Awardee Cash Management Service (ACM\$). ACM\$ eliminated the need for the previous grant accrual methodology; however, NSF applied an accrual to account for the inability of grantees to

drawdown for three business days at year end. Additional detail is included in Note 7, *Accrued Liabilities - Grants*.

L. Accrued Liabilities—Contracts and Payroll

Accrued Liabilities - Contracts and Payroll consist of contract accruals and accrued payroll. 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.

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 its inception.

O. Retirement Plan

In FY 2013, approximately 11 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/2013/13-302.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. 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 can reasonably be 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.

Note 2. Fund Balance With Treasury

Fund Balance with Treasury (FBWT) consisted of the following components as of September 30, 2013 and 2012:

(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: Budgetary Non-FBWT	-	(31,284)	-	(31,284)
Total FBWT	\$ 11,181,779	\$ 35,207	\$ 369,941	\$ 11,586,927

(Amounts in Thousands)	2012			
	Appropriated Funds	Donated Funds	Funds from Dedicated Collections	Total
Obligated	\$ 11,509,326	\$ 51,978	\$ 248,949	\$ 11,810,253
Unobligated Available	20,500	42,054	95,762	158,316
Unobligated Unavailable	115,208	71	3,545	118,824
Less: Budgetary Non-FBWT	-	(40,245)	-	(40,245)
Total FBWT	\$ 11,645,034	\$ 53,858	\$ 348,256	\$ 12,047,148

The *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 held as FBWT or as non-FBWT with budgetary resources which represent cash held outside of Treasury at commercial banks in interest bearing accounts. These funds are collateralized up to \$40.9 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 Non-immigrant Petitioner Fees Account 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, 2013 and 2012 were:

	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

	2012		
	Acquisition	Accumulated	Net Book Value
	Cost	Depreciation	
Equipment	\$ 147,416	\$ (121,262)	\$ 26,154
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	307,564	(107,511)	200,053
Leasehold Improvements	10,981	(9,668)	1,313
Construction in Progress	10,657	-	10,657
Internal Use Software	10,222	(7,605)	2,617
Software in Development	36,106	-	36,106
Total PP&E	\$ 661,433	\$ (384,533)	\$ 276,900

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.

At September 30, 2013, there were 34 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 or the FFRDC is not audited, the related amounts are annotated as Not Available (N/A) in the table.

Notes to the Principal Financial Statements
September 30, 2013 and 2012

(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	<u>Amount</u>	<u>Fiscal Year</u> <u>Ending</u>
University Corporation for Atmospheric Research - UCAR	\$214,685	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	N/A	9/30
National Radio Astronomy Observatory - AUI	\$553,169	9/30

Note 5. Leases

In FY 2013, NSF entered into a new operating lease with GSA for its Headquarter buildings. 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)

<u>Fiscal Year</u>	<u>Operating Lease</u> <u>Amount</u>
2014	\$ 27,284
2015	28,730
2016	28,894
2017	29,064
2018	7,355
After 2019	212
Total Minimum Lease Payments	\$ 121,539

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 United States Antarctic Program (USAP) have been identified as having, or can reasonably be 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 includes 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
- Current year subcontract pricing information for asbestos abatement

As required by SFFAS No. 6, *Accounting for Property, Plant and Equipment*, NSF will work with the current ASC to determine the need for asbestos liability adjustments on an annual basis. Actual asbestos remediation costs will be submitted quarterly by the ASC and the asbestos liability will be reduced by the reported amount as the information is received.

Note 7. Accrued Liabilities – Grants

At September 30, 2012, NSF's *Accrued Liabilities – Grants* balance included an estimate of prior quarter expenditures incurred, but not yet reported. Although the majority of NSF's grantees were reimbursed for incurred costs, expenditure reports were received 30 days after the end of the quarter. Consequently, NSF would post an advance or liability based on estimated grant expenditures. In FY 2013, NSF fully adopted the use of a new grantee cash request and expenditure reporting system, ACM\$, for all grantee institutions. ACM\$ enables grantees to request funds at the award level. At the time funds are requested, grantees are required to certify that funds will be expended within three days of receipt. As such, NSF considers funds expended when requested. Despite these reporting changes, actual grant expenditures are substantially consistent with prior years and, accordingly, the accrual needed at September 30, 2013 is substantially lower than at September 30, 2012.

Due to Treasury cut-off dates, NSF grantees were unable to drawdown funds in ACM\$ three business days before the end of FY 2013. To account for expenditures incurred but not reported during the ACM\$ cut-off period, NSF records an accrual based on the average daily ACM\$ draw during the last quarter of FY 2013. As of September 30, 2013 and 2012, the *Accrued Liabilities – Grants* portion of total grant expenditures was \$91.1 and \$445.6 million, respectively.

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, 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*. 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*.

Notes to the Principal Financial Statements
September 30, 2013 and 2012

(Amounts in Thousands)	2013	2012
------------------------	------	------

Balance Sheet as of September 30, 2013 and 2012

Fund Balance With Treasury	\$ 369,941	\$ 348,255
Total Assets	369,941	348,255
Other Liabilities	1,261	4,051
Total Liabilities	1,261	4,051
Cumulative Results of Operations	368,680	344,204
Total Liabilities and Net Position	\$ 369,941	\$ 348,255

Statement of Net Cost for the Years Ended September 30, 2013 and 2012

Program Costs	\$ 91,365	\$ 108,865
Net Cost of Operations	\$ 91,365	\$ 108,865

Statement of Changes in Net Position For the Years Ended September 30, 2013 and 2012

Net Position Beginning of Period	\$ 344,204	\$ 324,083
Appropriated Dedicated Collection Transferred In / Out	115,841	128,986
Net Cost of Operation	(91,365)	(108,865)
Change in Net Position	24,476	20,121
Net Position End of Period	\$ 368,680	\$ 344,204

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 classified in the Statement of Net Cost and its related footnote as *Costs Not Assigned To Other Programs*.

In pursuit of its mission, NSF incurs costs related to the Foundation's strategic plan for FY 2011-2016: *Empowering the Nation through Discovery and Innovation*. The strategic goals outlined in this plan are: "Transform the Frontiers", "Innovate for Society", and "Perform as a Model Organization". "Transform the Frontiers" emphasizes the seamless integration of research and education as well as the close coupling of research infrastructure and discovery. "Innovate for Society" points to the tight linkage between NSF programs and societal needs, and highlights the role that new knowledge and creativity play in economic prosperity and society's general welfare. "Perform as a Model Organization" emphasizes the importance to NSF of attaining excellence and inclusion in all operational aspects.

Stewardship costs directly reflect the third strategic goal, "Perform as a Model Organization", 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

Notes to the Principal Financial Statements
September 30, 2013 and 2012

information systems technology; staff training, audit and OIG activities; and OPM and DOL benefits costs paid on behalf of NSF.

At September 30, 2013 approximately 95 percent of NSF's expenses amounting to \$6.9 billion were directly related to the "Transform the Frontiers" and "Innovate for Society" strategic outcome goals. At September 30, 2012 approximately 96 percent of NSF's expenses amounting to \$7.1 billion was directly related to the "Transform the Frontiers" and "Innovate for Society" strategic outcome goals. At September 30, 2013 and 2012, costs related to the Stewardship activities totaled \$327.4 million and \$333.7 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)

	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>
Costs Not Assigned To Other Programs			
Gross Costs	\$ 22	\$ 167,267	\$ 167,289
Less: Earned Revenue	-	-	-
Net Costs Not Assigned To Other Programs	<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>

Notes to the Principal Financial Statements
September 30, 2013 and 2012

(Amounts in Thousands)	2012		
	Federal	Public	Total
Research and Related Activities			
Gross Costs	\$ 255,075	\$ 5,879,466	\$ 6,134,541
Less: Earned Revenue	(107,478)	-	(107,478)
Net Research and Related Activities	<u>147,597</u>	<u>5,879,466</u>	<u>6,027,063</u>
Education and Human Resources			
Gross Costs	\$ 4,117	\$ 873,805	\$ 877,922
Less: Earned Revenue	(5,692)	-	(5,692)
Net Education and Human Resources	<u>(1,575)</u>	<u>873,805</u>	<u>872,230</u>
Major Research Equipment and Facilities Construction			
Gross Costs	\$ 5,458	\$ 265,010	\$ 270,468
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	<u>5,458</u>	<u>265,010</u>	<u>270,468</u>
Costs Not Assigned To Other Programs			
Gross Costs	\$ 292	\$ 165,604	\$ 165,896
Less: Earned Revenue	-	-	-
Net Costs Not Assigned To Other Programs	<u>292</u>	<u>165,604</u>	<u>165,896</u>
Net Cost of Operations	<u>\$ 151,772</u>	<u>\$ 7,183,885</u>	<u>\$ 7,335,657</u>

Note 10. Rescissions and Cancelled Authority Adjustments

The components of Rescissions and Cancelled Authority Adjustments as of September 30, 2013 and September 30, 2012 were:

(Amount in Thousands)	2013	2012
Rescissions	\$ (508,986)	\$ -
Cancelled Authority Adjustments	(49,076)	(43,354)
Total Rescissions and Cancelled Authority Adjustments	<u>\$ (558,062)</u>	<u>\$ (43,354)</u>

In accordance with Public Law 113-6, NSF was subject to FY 2013 across-the-board and sequestration rescissions. These rescission required NSF to reduce FY 2013 funding levels by 1.877% under section 3001 and 0.2% under section 3004. NSF was not subject to rescissions in FY 2012.

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 2013 and 2012 the permanent indefinite appropriations for R&RA were \$427.2 million and \$437.3 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 2013 and 2012, the permanent indefinite appropriations for MREFC were \$196.2 million and \$167.1 million, respectively. An additional, \$12.5 million and \$30.0 million, respectively, were 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 2013 and 2012, the permanent indefinite appropriations for EHR were \$50.5 million and \$54.9 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 2013 and 2012, 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, 2013 and 2012, direct obligations amounted to \$7.1 billion and \$7.3 billion, respectively, and reimbursable obligations amounted to \$118.7 million and \$107.1 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 2013 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of FY 2014 and can be found on the OMB web site: <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2012 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)	2012			
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable	Distributed Offsetting Receipts
Combined Statement of Budgetary Resources	\$ 7,644,990	\$ 7,367,850	\$ 118,824	\$ 48,891
Budget of the U.S. Government	\$ 7,533,696	\$ 7,364,644	\$ 10,736	\$ 2,000
Difference	\$ 111,294	\$ 3,206	\$ 108,088	\$ 46,891

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, 2013 and 2012 amounted to \$11.3 billion and \$11.4 billion, respectively.

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 \$1.0 billion to board member affiliated institutions in FY 2013. 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 2013, NSB approved one award to a board member affiliated institution.

Note 16. Reconciliation of Net Cost of Operations to Budget

(Amounts in Thousands)	2013	2012
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 7,237,741	\$ 7,367,850
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(262,497)</u>	<u>(250,126)</u>
Obligations Net of Offsetting Collections and Recoveries	6,975,244	7,117,724
Less: Offsetting Receipts	<u>(43,514)</u>	<u>(48,891)</u>
Net Obligations	6,931,730	7,068,833
Other Resources		
Transfers In / (Out) Without Reimbursement	781	-
Imputed Financing	11,358	11,364
Other Resources	<u>(4,800)</u>	<u>(113)</u>
Net Other Resources Used to Finance Activities	7,339	11,251
Total Resources Used to Finance Activities	6,939,069	7,080,084
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	124,450	204,760
Resources that Fund Expenses Recognized in Prior Periods	(2,713)	5
Budgetary Offsetting Collections and Receipts that Do Not Affect		
Net Cost of Operations	43,514	48,891
Resources that Finance the Acquisition of Assets	<u>(18,281)</u>	<u>(17,616)</u>
Total Resources Used to Finance Items Not Part of the		
Net Cost of Operations	146,970	236,040
Total Resources Used to Finance Net Cost of Operations	7,086,039	7,316,124
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>67</u>	<u>693</u>
Total Components of Net Cost of Operations that will Require		
or Generate Resources in Future Periods	67	693
Components Not Requiring or Generating Resources		
Depreciation and Amortization	24,738	18,725
Other	<u>6,227</u>	<u>115</u>
Total Components of Net Cost of Operations that will not		
Require or Generate Resources	30,965	18,840
Total Components of Net Cost of Operations that Will Not		
Require or Generate Resources in the Current Period	31,032	19,533
Net Cost of Operations	\$ 7,117,071	\$ 7,335,657

Required Supplementary Stewardship Information

Stewardship Investments

For the Years Ended September 30, 2013 and 2012

Required Supplementary Stewardship Information
September 30, 2013 and 2012

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

Research and Human Capital Activities

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Basic Research	\$ 5,446,790	\$ 5,590,843	\$ 5,401,356	\$ 5,249,579	4,413,407
Applied Research	588,261	532,729	404,596	416,008	498,544
Education and Training	861,871	991,543	1,115,680	1,019,776	867,333
Non-Investing Activities	327,357	333,712	337,170	312,269	332,623
Total Research & Human Capital Activities	\$ <u>7,224,279</u>	\$ <u>7,448,827</u>	\$ <u>7,258,802</u>	\$ <u>6,997,632</u>	<u>6,111,907</u>

Inputs, Outputs and/or Outcomes

Research and Human Capital Activities

Investments In:

Universities	\$ 5,025,068	\$ 5,445,926	\$ 5,192,332	\$ 5,103,835	4,340,871
Industry	337,818	280,452	350,115	286,419	253,114
Federal Agencies	208,806	264,846	195,652	203,635	219,367
Small Business	249,443	239,866	254,215	268,697	209,343
Federally Funded R&D Centers	280,032	229,474	231,234	246,217	232,319
Non-Profit Organizations	605,059	523,772	522,958	408,441	381,882
Other	518,053	464,491	512,296	480,388	475,011
	\$ <u>7,224,279</u>	\$ <u>7,448,827</u>	\$ <u>7,258,802</u>	\$ <u>6,997,632</u>	<u>6,111,907</u>

Support To:

Scientists	\$ 539,713	\$ 544,452	\$ 540,865	\$ 568,140	695,389
Postdoctoral Programs	190,564	192,863	196,071	188,665	252,639
Graduate Students	568,548	574,557	564,021	602,990	933,063
	\$ <u>1,298,825</u>	\$ <u>1,311,872</u>	\$ <u>1,300,957</u>	\$ <u>1,359,795</u>	<u>1,881,091</u>

Outputs & Outcomes:

Number of:

Award Actions	20,000	23,000	22,000	24,000	28,000
Senior Researchers	44,000	56,000	53,000	55,000	54,000
Other Professionals	14,000	14,000	14,000	15,000	15,000
Postdoctoral Associates	6,000	6,000	7,000	7,000	8,000
Graduate Students	42,000	42,000	40,000	40,000	54,000
Undergraduate Students	29,000	31,000	27,000	34,000	33,000
K-12 Students	124,000	125,000	86,000	59,000	14,000
K-12 Teachers	40,000	45,000	48,000	85,000	63,000

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. In FY 2011, NSF slightly modified the methodology for developing the Basic Research, Applied Research, Education and Training, and Non-Investing Activity costs. 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 2014 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. In fiscal years prior to 2011, the number of K-12 students involved in NSF activities was based on estimates provided by staff in the Graduate Teaching Fellowships in K-12 Education (GK-12) program within EHR. For FY 2011 and after, the numbers are based on a more robust data collection and analysis process.

Required Supplementary Information

Deferred Maintenance and Repairs For the Years Ended September 30, 2013 and 2012

Deferred Maintenance and Repairs

NSF performs condition assessment surveys in accordance with FASAB Standards No. 6, No. 14, and No. 40 for capitalized 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 period for fiscal years 2013 and 2012. 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, 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.

At September 30, 2012, NSF determined that scheduled maintenance on two items of Antarctic capital equipment in poor condition was not completed and was deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$23.9 thousand. The items are heavy mobile equipment and are considered critical to NSF operations. In total, these are estimated to require \$47.8 thousand in maintenance.

Required Supplementary Information

Budgetary Resources by Major Budget Accounts

In the following table, NSF budgetary information for the fiscal years ended September 30, 2013 and 2012, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts. In FY 2012, NSF presented ARRA funds on a separate schedule. In FY 2013, due to diminishing ARRA balances, NSF has presented these funds in conjunction with the appropriate major budget account.

Required Supplementary Information
September 30, 2013 and 2012

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	186,989	38,224	698	7,206	146,223	379,340
Appropriations	5,543,716	833,312	196,170	310,916	156,207	7,040,321
Spending Authority from Offsetting Collections	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, Gross						
Actual Offsetting Collections	\$ 5,647,768	833,948	196,170	317,744	156,215	\$ 7,151,845
Change in Uncollected Customer Payments from Federal Sources	(91,608)	(6,464)	-	(3,437)	(9)	(101,518)
Budget Authority, Net	(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						
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	-	-	-	-	(43,514)	(43,514)
Net Agency Outlays	\$ 5,955,225	785,034	244,702	313,635	118,620	\$ 7,417,216

Required Supplementary Information
September 30, 2013 and 2012

The Science Appropriations Act, 2012

2012
(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	\$ 81,845	26,375	877	6,538	113,265	\$ 228,900
Recoveries of Prior Year Unpaid Obligations	123,022	15,969	835	3,778	3,623	147,227
Other Changes in Unobligated Balance	(29,581)	(11,155)	-	(2,617)	-	(43,353)
Unobligated Balance from Prior Year Budget Authority, Net	175,286	31,189	1,712	7,699	116,888	332,774
Appropriations	5,689,000	829,000	197,055	318,040	176,222	7,209,317
Spending Authority from Offsetting Collections	92,141	4,441	-	6,317	-	102,899
Total Budgetary Resources	\$ 5,956,427	864,630	198,767	332,056	293,110	\$ 7,644,990
Status of Budgetary Resources						
Obligations Incurred	\$ 5,857,488	835,540	198,081	325,063	151,678	\$ 7,367,850
Unobligated Balance, End of Year		-	-	-	-	
Apportioned	13,859	4,563	681	1,397	137,816	158,316
Unapportioned	85,080	24,527	5	5,596	3,616	118,824
Total Unobligated Balance, End of Year	98,939	29,090	686	6,993	141,432	277,140
Total Status of Budgetary Resources	\$ 5,956,427	864,630	198,767	332,056	293,110	\$ 7,644,990
Change in Obligated Balance						
Unpaid Obligations						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 9,586,272	1,666,563	493,868	77,347	312,844	\$ 12,136,894
Obligations Incurred	5,857,488	835,540	198,081	325,063	151,678	7,367,850
Gross Outlays	(5,813,193)	(840,105)	(276,005)	(321,494)	(159,971)	(7,410,768)
Recoveries of Prior Year Unpaid Obligations	(123,022)	(15,969)	(835)	(3,778)	(3,623)	(147,227)
Unpaid Obligations - End of Year, Gross	9,507,545	1,646,029	415,109	77,138	300,928	11,946,749
Uncollected Payments						
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (126,805)	(11,703)	-	(819)	-	\$ (139,327)
Change in Uncollected Payments from Federal Sources	1,231	969	-	631	-	2,831
Uncollected Payments from Federal Sources, End of Year	(125,574)	(10,734)	-	(188)	-	(136,496)
Memorandum (non-add) Entries						
Obligated Balance - Start of Year	\$ 9,459,467	1,654,860	493,868	76,528	312,844	\$ 11,997,567
Obligated Balance - End of Year	\$ 9,381,971	1,635,295	415,109	76,950	300,928	\$ 11,810,253
Budget Authority and Outlays, Net						
Budget Authority, Gross	\$ 5,781,141	833,441	197,055	324,357	176,222	\$ 7,312,216
Actual Offsetting Collections	(93,371)	(5,411)	-	(6,948)	-	(105,730)
Change in Uncollected Customer Payments from Federal Sources	1,231	969	-	631	-	2,831
Budget Authority, Net	\$ 5,689,001	828,999	197,055	318,040	176,222	\$ 7,209,317
Gross Outlays						
Gross Outlays	\$ 5,813,193	840,105	276,005	321,494	159,971	\$ 7,410,768
Actual Offsetting Collections	(93,371)	(5,411)	-	(6,948)	-	(105,730)
Net Outlays	5,719,822	834,694	276,005	314,546	159,971	7,305,038
Distributed Offsetting Receipts	-	-	-	-	(48,891)	(48,891)
Net Agency Outlays	\$ 5,719,822	834,694	276,005	314,546	111,080	\$ 7,256,147

Other Information

Schedule of Spending

For the Year Ended September 30, 2013

The Schedule of Spending (SOS) was new in FY 2012 and has been slightly modified in FY 2013 in accordance with updated OMB Circular No. A-136, *Financial Reporting Requirements*. It was developed to make information about government spending more accessible and transparent to the public. To 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?
- 2) How was the money spent/issued?
- 3) Who did the money go to?
- 4) How does the SOS compare to the SBR and USASpending.gov?

In accordance with OMB guidance, NSF has prepared three of the four sections of the Schedule for FY 2013—sections 1, 2 and 4. Section 3 will be presented in FY 2014.

- **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.
- **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 management estimate accruals.
- **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, 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	\$	<u>7,237,741</u>

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	\$ <u>5,717,430</u>	<u>839,624</u>	<u>196,488</u>	<u>319,074</u>	<u>165,125</u>	<u>7,237,741</u>

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

The purpose of the SOS, the SBR, and the USASpending.gov website is the same—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. 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 is based on financial information that is included in the financial system as of September 30. The SOS includes accruals and other financial information applicable to FY 2013, but posted subsequent to September 30.