



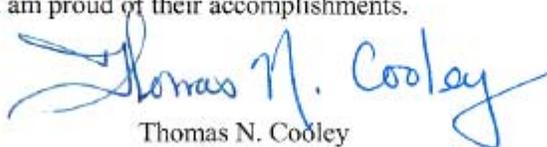
## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report NSF received a clean audit opinion in FY 2006, maintaining our record of excellence in financial management. This is a testament to our outstanding staff. A firm working with NSF for the first time, Clifton Gunderson LLP, performed an independent audit and issued NSF's ninth consecutive unqualified audit opinion. The audit report repeated two prior year reportable conditions: post-award monitoring and contract monitoring. Over the past year, significant progress has been made in both, and we will enhance our efforts to complete the activities highlighted in their respective corrective action plans.

NSF's longstanding commitment to organizational excellence and sound financial management practices continues to serve us well. Notable achievements of the past year include:

- Maintaining "Green" ratings for both the Financial Performance and the Budget and Performance Integration initiatives on the President's Management Agenda scorecard. NSF has successfully sustained a "Green" rating for Financial Performance for 18 consecutive quarters.
- Moving from an annual to a three-year reporting cycle for improper payments with OMB approval, as a result of the low improper payment rates reported in our FY 2004 and FY 2005 Performance and Accountability Reports.
- Recovering \$3.19 million in excess cash held by grant recipients, and reducing erroneous program income reporting by grantees from \$3.99 million to \$0.77 million through the post-award monitoring efforts.
- Providing flat rate travel reimbursements through our new Guest Travel System to our numerous merit review panelists in 16 days, on average.
- Receiving a League of American Communications Professionals Honors Award for our *FY 2005 Performance Highlights* report. NSF is proud to be the only federal agency to be honored for five consecutive years of distinction in its annual reports - a recognition that reflects the agency's continuing commitment to be accountable to our stakeholders and the public for sound stewardship of the public's resources.

Sound innovative financial management enables NSF to pursue critical investments in science and engineering research and education that ultimately help ensure the nation's security, prosperity, and well being. NSF's commitment to managing programs in an informed and fiscally responsible manner, to ensuring resources are used efficiently and effectively, and to accountability and transparency reflect the dedication and diligence of a premier staff. I am proud of their accomplishments.

A handwritten signature in blue ink that reads "Thomas N. Cooley".

Thomas N. Cooley

November 7, 2006



NATIONAL SCIENCE FOUNDATION  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230

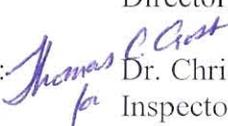


OFFICE OF  
INSPECTOR GENERAL

November 10, 2006

To: Dr. Steven C. Beering  
Chairman, National Science Board

Dr. Arden L. Bement, Jr.  
Director, National Science Foundation

From:  Dr. Christine C. Boesz  
Inspector General

Subject: Audit of the National Science Foundation's  
Fiscal Years 2006 and 2005 Financial Statements

This memorandum transmits Clifton Gunderson LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Year 2006, which includes Fiscal Year 2005 comparative information.

### Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Clifton Gunderson, an independent public accounting firm (IPA), performed an audit of NSF's Fiscal Year 2006 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 06-03, *Audit Requirements for Federal Financial Statements*, issued by the United States Office of Management and Budget.

Clifton Gunderson issued an unqualified opinion on NSF's FY 2006 financial statements. In its Report on Internal Control over Financial Reporting, Clifton Gunderson identified two reportable conditions relating to NSF's post-award administration and contract monitoring. Clifton Gunderson also reported that there were no instances in which NSF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and found no reportable noncompliance with laws and regulations it tested. Another IPA under contract with the OIG performed the audit of NSF's FY 2005 financial statements, and issued a report dated November 4, 2005.

Management's response dated November 7, 2006, follows Clifton Gunderson's report.

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

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

- Reviewed Clifton Gunderson's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with NSF management to discuss audit progress, findings, and recommendations;
- Reviewed Clifton Gunderson's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 06-03; and
- Coordinated issuance of the audit report.

Clifton Gunderson LLP is responsible for the attached auditor's report dated November 6, 2006, and the conclusions expressed in the report. We do not express any opinion on NSF's financial statements, internal control, conclusions on compliance with laws and regulations, or on whether NSF's financial management systems substantially complied with FFMIA.

The Office of Inspector General appreciates the courtesies and cooperation NSF extended to Clifton Gunderson LLP and OIG staff during the audit. If you or your staff has any questions, please contact me or Deborah H. Cureton, Associate Inspector General for Audit.

Attachment

cc: Dr. Dan E. Arvizu, Chair, Audit and Oversight Committee

## **INDEPENDENT AUDITOR'S REPORT**

Dr. Steven Beering  
Chairman, National Science Board

Dr. Arden L. Bement, Jr.  
Director, National Science Foundation

In our audit of the financial statements of the National Science Foundation (NSF) for fiscal year (FY) 2006 we found:

- The NSF financial statements, which are the balance sheet as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations;
- Even though progress has been made in FY 2006 on the two reportable conditions noted in the FY 2005 auditor's report, certain matters in those conditions continue to exist and, accordingly, the two reportable conditions are noted in this year's report;
- No instances of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- No instances of noncompliance with laws and regulations.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the scope of our audit.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion, the accompanying FY 2006 financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, NSF's assets, liabilities, and net position as of September 30, 2006; and its related net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the year then ended.

NSF's financial statements as of and for the year ended September 30, 2005, were audited by other auditors; whose report dated November 4, 2005 expressed an unqualified opinion on those financial statements.

## CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered NSF's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with the Office of Management and Budget (OMB) audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance.

The objectives of an effective internal control system are the following:

- *Reliability of Financial Reporting:* Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- *Compliance With Laws and Regulations:* Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government-wide policies identified by OMB audit guidance.
- *Reliability of Performance Reporting:* Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect NSF's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

The prior year audit report noted two reportable conditions on Post-award Monitoring and Contract Monitoring. Even though management made strides in resolving some of the specific weaknesses reported last year in these areas, the overall concept of the matters continue to be reflected as reportable conditions in this year's report. **Exhibit I** details these two repeat reportable conditions, and describes the improvements made in FY 2006 as well as the continuing deficiencies that require management's attention in FY 2007. Neither of these reportable conditions is considered to be a material weakness.

As required by OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, we considered NSF's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the component's of NSF's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 06-03, with respect to internal control related to performance measures reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

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

## **SYSTEMS COMPLIANCE WITH FFMIA REQUIREMENTS**

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

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

## **COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

## **STATUS OF PRIOR YEAR'S REPORTABLE CONDITIONS**

As required by *Government Auditing Standards* and OMB Bulletin No. 06-03, we have reviewed the status of NSF corrective actions with respect to the findings and recommendations included

in the prior year's Independent Auditor's Report dated November 4, 2005. The prior year audit report noted two reportable conditions: Post-award Monitoring and Contract Monitoring. Even though management made strides in resolving some of the specific weaknesses reported last year in these areas, the overall concept of the matters continue to be reflected as reportable conditions in this year's report, and such reportable conditions are attached as **Exhibit I** to this report.

## **CONSISTENCY OF OTHER INFORMATION**

Management's Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with NSF officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

Management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA), as codified in 31 U.S.C. 3512 are met, (3) ensuring that NSF's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether the financial management systems used by NSF substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Performance and Accountability Report.

In order to fulfill these responsibilities, we (1) examined on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding of assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Performance and Accountability Report, (5) tested relevant internal controls over financial reporting, and compliance, and

evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether the financial management systems used by NSF substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

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

We did not test compliance with all laws and regulations applicable to NSF. We limited our tests of compliance to those laws and regulations required by OMB audit guidance we deemed applicable to the financial statements for the fiscal year ended September 30, 2006. Our work on FFMIA would not necessarily disclose all instances of lack of substantial non-compliance with FFMIA requirements. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

We have considered management's response (Exhibit II) and have concluded that no change is needed to our original findings, conclusions, or recommendations. We will evaluate the status of these findings during the FY 2007 audit.

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

A handwritten signature in cursive script that reads "Clifton Gunderson LLP".

Calverton, Maryland  
November 6, 2006

**NATIONAL SCIENCE FOUNDATION  
CONSIDERATION OF INTERNAL CONTROL  
REPORTABLE CONDITIONS  
September 30, 2006**

## **1. Post-Award Oversight For High Risk Grants and Cooperative Agreements**

### **Condition Background**

NSF awards grants and co-operative agreements (co-ops) to various organizations, including colleges and universities, non-profit organizations, state and local governments, and Federally Funded Research & Development Centers (FFRDC). In FY 2006, NSF expended approximately \$4.9 billion in grant and co-op awards (collectively referred to as awards) to 2,367 institutions, representing over 41,000 awards. As such, it is important that NSF oversee the financial performance of these awards to ensure Federal funds are properly spent on allowable costs benefiting NSF's research activities. As noted in prior audit reports, Post-Award Monitoring was a Reportable Condition.

In response to the Reportable Condition in the FY 2005 audit report, NSF management initiated procedures which improved its post-award oversight process. Some of the more significant procedural changes began to be implemented after the second quarter of the year, including the hiring of a contractor in May 2006 to perform desk reviews of high risk awards that did not receive an Award Monitoring & Business Assistance Program (AMBAP) site visit in fiscal year 2005 and 2006. Other improvements in the processes made in FY 2006 were as follows:

- Modified the medium and low risk award Federal Cash Transactions Report (FCTR) transaction testing process for FY 2006 to include the first quarter of FY 2006 along with the last three quarters of FY 2005.
- Revised the risk assessment process to be used for FY 2007 by incorporating additional risk factors, such as "Total Intended Award Amount."

While we commend NSF for initiating these changes, continuous refinements and completion of these initiatives are needed. Accordingly, the following section explains why this matter continues to be a Reportable Condition.

### **Condition Status at September 30, 2006**

NSF's process to monitor its grantees\co-op partners to ensure that expenditures were allowable, allocable, and reasonable under the terms of the award\agreement did not ensure that appropriate oversight reviews were performed at a material number of institutions with high risk awards where a site visit was not performed.

NSF's procedures require that awards are assessed as high, medium, or low risk based on objective factors. The procedures also require that institutions with high risk awards receive a more detailed level of review, such as an AMBAP or Total Business System Review (TBSR) site visits on a cyclical basis every four or five years.

For FY 2006, NSF's risk assessment process initially identified 340 high risk awards at 206 institutions valued at \$3.2 billion. NSF applied various factors to reduce the number and dollar amount of awards for which a site visit or desk review would be performed, resulting in 286 awards to 153 institutions valued at \$2.7 billion being excluded from the population for which site visits and desk reviews would be performed. Some factors NSF used to exclude grants from the population are not appropriate, such as grant awards due to expire and grant awards at institutions that had received an AMBAP review in the past 4 years. The grants about to expire totaled approximately \$700 million and many of these awards were continuing and/or the award period had been extended. The grant awards with previous AMBAP reviews totaled approximately \$880 million. The AMBAP site visits provide an in-depth oversight of the internal controls instituted by the awardees; however, they are performed on a four year cycle for an awardee.

As a result of using the exclusion factors, approximately \$2.7 billion (84%) of the originally identified FY 2006 high risk awards did not receive any type of review in FY 2006. While eliminating certain awards from site visits and desk reviews is reasonable given available resources, there should still be some form of annually implemented oversight procedures for the remainder of the high risk awards at a level no less stringent than the oversight given to medium and low risk awards.

Ultimately NSF performed site visits for grantees (AMBAP reviews) and for co-ops (TBSR) on only 33 FY 2006 awards valued at \$324 million at 32 institutions. While NSF initiated desk reviews for 24 awards valued at \$287 million in FY 2006, it completed reviews of only 13 awards, valued at \$103 million by September 30, 2006.

With respect to Federally Funded Research and Development Centers (FFRDCs), we found that the Standard Operating Guidance BFA 2005-1, *Post Award Monitoring & Oversight of FFRDCs and Complex Cooperative Agreements*, dated June 29, 2005, does not provide guidance on how to perform TBSRs for FFRDCs and large facilities that are in planning, under construction, or in operation. These are some of the largest awards that NSF makes valued at approximately \$780 million annually. If there are no specific policies and procedures for conducting and documenting TBSR oversight activities for these FFRDCs and large facilities, there is an increased risk that NSF will not identify issues which need to be resolved and/or award funds that are not being used for their intended purposes.

### **Condition Summary**

In conclusion, we believe that management has improved its award oversight control structure in FY 2006. However, the oversight review coverage for high risk awards, either by site visit or desk reviews, does not appear sufficient to conclude whether organizations managing high risk awards, as a whole, are spending funds awarded consistent with the terms

and conditions of the grant award or co-op agreements. In addition, the actual desk review process did not begin until May 2006, and only 13 high risk grant desk reviews and 2 co-op TBSR reviews were completed by September 30, 2006. Therefore, the effectiveness of these changes, the adequacy of the procedures performed, and the results of the desk reviews when they are ultimately completed are uncertain.

We commend NSF for expanding its award oversight process in FY 2006 to include implementing the desk review process recommended in the FY 2005 audit report, pursuing enhancements to the risk assessment process, and incorporating the first quarter of FY 2006 in the FCTR transaction testing. However, continued refinement to the oversight model and review process is needed to ensure that costs on the financial statements were spent in accordance with the terms of the grant agreements.

**Recommendations:** We recommend that NSF management:

1. Complete the desk review program implemented for high risk awards and evaluate the benefit and effectiveness of such reviews to the overall award oversight process.
2. Refine factors used in the Risk Assessment model to determine which organizations managing high risk awards are considered for desk reviews or AMBAP site visits. Circumstances leading to exclusion should be clearly demonstrated.
3. Expand the coverage of review of high risk awards. Such coverage increase should include implementing FCTR transaction testing for high risk awards excluded from the AMBAP or TBSR site visits and desk reviews for that fiscal year.
4. Revise Standard Operating Guidance to reflect the process for planning and scheduling TBSRs for FFRDCs and other large facilities, the documentation requirements for the TBSR, and the disposition of its results.

## **2. Contract Monitoring**

***Conditions:*** In FY 2006, NSF expended approximately \$550 million on active contracts and interagency agreements for the delivery of products and services. Of this amount, \$225 million was disbursed through advance payment programs with three contractors, including \$177 million for logistical support of the U.S. Antarctic Program (USAP). In accordance with Federal requirements, Federal agencies must have controls in place to assess the risks faced from both external and internal sources to ensure that contractors use federal funds consistent with the objectives of the contract, and that funds are protected from waste, fraud, or mismanagement. However, during our FY 2006 audit, we found that NSF does not have a comprehensive, risk-based system, including detailed policies and procedures, in place to oversee and monitor its contract awards.

In March 2006, the Division of Acquisition and Cooperative Support (DACS) completed a Contracts Manual that details policies and procedures for contract administration and oversight. However, the manual is not comprehensive in that it does not include any specific policies and procedures for risk assessment or risk mitigation plans for contracts that may require expanded oversight. The manual also does not define the specific roles and

responsibilities for contract personnel (i.e. contracting specialist, contract officer) regarding their regular activities, including contract file documentation and maintenance. In addition, the manual describes the general requirements of the Federal Acquisition Regulation (FAR), but it does not provide NSF specific guidance necessary to implement FAR policies and procedures.

In addition, in response to the Reportable Condition disclosed in the FY 2005 audit report, NSF management initiated a quarterly expenditure report (QER) review program in FY 2006. While the QER program involves the review of vouchers submitted by its three largest contractors, these reviews, while important, are only one piece of a rigorous contract oversight program. As reported in the FY 2005 audit report, NSF did not adequately review quarterly expenditure reports submitted by its three largest contractors receiving payments in advance for services that they provide to NSF. To address this problem, during FY 2006, NSF contracted with the Defense Contract Audit Agency (DCAA) to perform quarterly expenditure report reviews for three advance payment contractors for the four quarters ended September 30, 2005, through June 30, 2006. These reviews have been completed, and while no significant findings were noted, these reviews have a limited scope that may not identify unallowable costs. Therefore, these reviews are not an adequate substitute for a comprehensive, risk-based system needed to provide management with material assurance that costs paid by NSF are valid.

This lack of appropriate contract oversight was also evident during our review of NSF's property account balance of approximately \$551 million at September 30, 2006, including \$142 million relating to Construction in Progress. NSF's largest contractor is responsible for acquiring, maintaining, and performing a physical inventory of the NSF's USAP property (PP&E). NSF relies on the contractor to maintain all related source documentation, and records amounts for PPE activities based on the summary reports provided by the contractor. However, NSF does not perform any independent verification of the PP&E amounts reported by the contractor, nor does it maintain copies of source documentation supporting PP&E amounts included in its financial statements.

In addition, cost-incurred audits continue to reveal internal control weaknesses, non-compliance with federal regulations, and significant questioned costs. For example, recent DCAA cost-incurred audits of NSF's largest contractor have identified approximately \$55.5 million in questioned costs for FY 2000 through 2004. DCAA also reported that the contractor was not in compliance with Federal Cost Accounting Standard 418, *Allocation of Direct and Indirect Costs*, for FYs 2000 to 2002. NSF is responsible for establishing controls to ensure that contractors use federal funds consistent with the terms and conditions of their contractual agreements. Therefore, a combination of its QER program and implementation of comprehensive oversight policy and procedures is needed to ensure effective contract administration.

Furthermore, during our FY 2006 audit, we found that NSF did not fully document its oversight and contract monitoring activities. Specifically, we found:

- A contractor submitted its final FY 2006 Annual Program Plan (APP) to NSF for approximately \$164 million in October 2005. In January 2006, the plan was approved by DACS at only \$144 million; however, the funds were provided to the contractor during FY 2006 at the originally proposed amount of \$164 million. In September 2006, the contract was modified to reflect the amount in the contractor's original APP. Consequently, the contractor was technically operating without an official approved APP during the first three months of FY 2006, and the advance payment allotments made during the year were not consistent with the DACS January 2006 approved amount of \$144 million.
- For one major contractor, we noted that an interim TBSR report was issued in November 2001; however, the TBSR has not been finalized. Also, NSF was unable to provide documentation evidencing that accounting and estimating systems reviews had been conducted.
- A desk review of a contractor's FY 2006 employee compensation plan was initiated in October 2005; however, NSF was unable to provide documentation regarding the status or results of the review. As a result, it is unclear whether the contractor's compensation plan was found to be reasonable.
- In our review of a sample of procurement transactions during FY 2006, we noted 3 instances out of 45 contracts folders selected for examination that were incomplete. The deficiencies noted in our limited sampling contract folders are an indication that the total population as a whole may have similar deficiencies, if testing was expanded.
  - NSF was unable to provide documentation indicating whether the procurement was a sole source or competitive bid.
  - The purchase requisition amount was not properly authorized, resulting in the purchase order amount exceeding the authorized purchase requisition in one case.

In conclusion, it appears that contractors' use of NSF funds may not be consistent with the objectives of the contract; contract funds may not be adequately protected from waste, fraud, and mismanagement; laws and regulations may not be completely followed; and reliable and timely financial information may not be obtained for financial reporting in a timely manner.

**Recommendations:** NSF needs to develop a more comprehensive, risk-based, internal management monitoring program to ensure that contractors use NSF funds consistent with the objectives of the contract, and that funds are protected from waste, fraud, or mismanagement. To accomplish these objectives, we recommend that NSF management:

- 1) Expand the Contracts Manual initiated in FY 2006 to include specific policies and procedures required for contract risk assessment, and risk mitigation plans for

## EXHIBIT I

contracts that may require expanded oversight. The manual should also provide specific guidance to implement FAR policies and procedures as they relate to NSF, and provide descriptions of specific roles and responsibilities for contract personnel regarding their day to day oversight activities. In addition, the manual should include procedures to ensure that contract folder documentation is complete, that there are no material discrepancies between documents, and that reviews of the adequacy of contract folder contents is performed more thoroughly. A checklist should be developed and consistently utilized to accomplish that objective.

- 2) Continue to perform Quarterly Expenditure Report reviews. In addition, management should perform appropriate and timely follow up on the findings and recommendations in the OIG cost-incurred reports issued for FYs 2000 to 2004, and subsequent years.
- 3) Maintain an electronic copy of key source documentation (i.e. invoices, purchase orders, etc.) used to support the PP&E activity and balances in NSF's financial statements. The documentation threshold amount requirement should be sufficient to achieve coverage of 75% of the total acquisition balance. In addition, NSF should implement a validation process to compare amounts reported in the PP&E accounts to supporting documentation prepared by the contractor on a test basis throughout the year (sampling both large and smaller purchases).

**NATIONAL SCIENCE FOUNDATION  
MANAGEMENT'S RESPONSE TO FY 2006  
INDEPENDENT AUDITOR'S REPORT  
November 6, 2006**

**NATIONAL SCIENCE FOUNDATION**  
4201 WILSON BOULEVARD  
ARLINGTON, VIRGINIA 22230

November 7, 2006

To: Christine C. Boesz  
Inspector General

From: Thomas N. Copley   
Chief Financial Officer

Subject: Management's Response to Independent Auditor's Report  
Fiscal Year 2006

I am extremely pleased that the National Science Foundation (NSF) is receiving its ninth clean opinion on the audit of its Financial Statements for fiscal year 2006. Throughout the audit, NSF worked closely with the auditors and provided full cooperation and assistance in ensuring the successful completion of this important process. The Foundation is continually striving to enhance accountability and controls in a Federal environment of increasing financial complexity. This achievement continues to gain significance as the level of investments and commitments needed to obtain a clean opinion increase.

NSF generally agrees with the two reportable conditions and is committed to resolving the issues noted in your report. The attachment provides some specific comments in a few areas. NSF has made significant progress in addressing the underlying causes for these conditions and will continue its efforts in these areas. In addition, the Foundation plans to provide a detailed corrective action plan that will highlight its activities to resolve these matters.

I appreciated receiving the draft audit report earlier than anticipated. I particularly found the presentation to be balanced and the executive summary helpful in facilitating Management's communications.

I would like to commend both of our organizations for the professionalism exhibited during the audit. It is important to recognize the time and efforts spent by all parties during Clifton Gunderson's initial audit year.

cc: Dr. Arden L. Bement, Jr.  
cc: Dr. Kathleen Olsen

Attachment (Management's Response to Auditor's Report)

## **Attachment Management's Response to Auditor's Report**

### **Post –Award Oversight for High Risk Grants and Cooperative Agreements**

We generally agree with the condition as stated by the auditors. We would like to re-emphasize that the National Science Foundation (NSF) has proactively taken action to refine its post award monitoring program. In doing so, the Foundation has addressed many of the issues noted in the condition statement.

Concerning the specific recommendations, we offer the following comments:

**1. Desk Reviews** - We concur and note that it was always NSF's intention to complete the desk reviews initiated in fiscal year (FY) 2006. This was the inaugural year for the desk review process. As such, significant time was spent designing and implementing the policies, procedures, and practices governing this program. However, NSF was still able to complete 54% of the FY 2006 desk reviews before the FY ended.

The desk review component of our monitoring program is being implemented consistent with the Corrective Action Plan entered into between NSF Management and the Office of Inspector General on February 14, 2006. All desk reviews identified in the FY 2006 risk assessment will be completed. We have identified, scheduled, and commenced FY 2007 desk reviews.

**2. Risk Assessment Modifications** - We concur with this recommendation and have proactively taken steps to address this issue. We have implemented changes to the 2007 Risk Assessment Model that incorporated a new data field called Total Intended Award Amount (TIAA) in an effort to identify awards that stood a chance of being incrementally funded and extended. The TIAA field indicates NSF's intention to award additional funds above the amount cumulatively awarded as of the date of the Risk Assessment data run. This allows the Risk Assessment Model to identify continuing award increments that appear to be about to expire soon from the data run information, but where there is an intention (assuming satisfactory scientific progress and availability of funds) to issue additional award increments.

NSF's award system is a dynamic, living portfolio. The Risk Assessment data run is a "snap shot in time." There may always be a possibility that an award appearing to expire in the near future on the Risk Assessment data run, might be extended.

**3. Federal Cash Transactions Report (FCTR) Transactional Testing** - We concur that our FCTR transactional testing is focused on low and medium risk awards. FCTRs are an aggregated expenditure report of all awards, regardless of risk ranking, at an institution. Through previous analyses we determined that a very small subset of NSF awardees managed a portfolio solely comprised of high risk awards. The total dollar value of those awards was less than 1 percent of the high risk population.

We plan to consult with our contractors, who execute our FCTR transactional testing, to obtain assistance in constructing a sampling and stratification plan for appropriate coverage of low, medium, and those high risk awards not subject to desk reviews, Award Monitoring and Business Assistance Program or Total Business Systems Review site visits.

### **Contract Monitoring**

We generally agree with the condition stated in the report concerning the need for independent verification of property plant and equipment information. In addition, NSF will consider your recommendation on maintaining source documentation in relation to the cost/benefit involved and other potential alternatives that may address the overall condition.





# **National Science Foundation**

**FINANCIAL STATEMENTS**  
as of and for the years ended  
September 30, 2006 and 2005



**National Science Foundation**  
**Balance Sheet**  
**As of September 30, 2006 and 2005**  
(Amounts in Thousands)

**ASSETS**

	<u>2006</u>	<u>2005</u>
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 7,823,954	\$ 7,674,185
Accounts Receivable (Note 4)	37,530	35,825
Advances (Note 5)	35,189	26,531
Total Intragovernmental Assets	<u>7,896,673</u>	<u>7,736,541</u>
Cash and Other Monetary Assets (Note 3)	12,941	11,196
Accounts Receivable, Net (Note 4)	139	97
Advances (Note 5)	76,511	69,661
General Property, Plant and Equipment, Net (Note 6)	<u>261,347</u>	<u>257,564</u>
<b>Total Assets</b>	<b>\$ <u>8,247,611</u></b>	<b>\$ <u>8,075,059</u></b>

**LIABILITIES**

Intragovernmental Liabilities		
Advances From Others	\$ 1,593	\$ 15,171
Employer Contributions & Other (Note 9)	712	671
FECA Employee Benefits (Note 8)	284	281
Other Intragovernmental Liabilities (Notes 11 and 12)	3,050	3,000
Total Intragovernmental Liabilities	<u>5,639</u>	<u>19,123</u>
Accounts Payable	43,932	44,019
FECA Employee Benefits (Note 8)	1,287	1,381
Estimated Clean Up Cost Liability (Note 11)	-	116
Accrued Liabilities - Grants, Payroll & Other (Note 9)	376,970	299,953
Accrued Annual Leave (Note 8)	<u>13,892</u>	<u>12,951</u>
<b>Total Liabilities (Note 8)</b>	<b>\$ <u>441,720</u></b>	<b>\$ <u>377,543</u></b>

Commitments and Contingencies (Notes 11 and 12)

**NET POSITION**

Unexpended Appropriations	\$ 7,255,489	\$ 7,198,420
Cumulative Results of Operations – Earmarked Funds (Note 13)	279,282	-
Cumulative Results of Operations	<u>271,120</u>	<u>499,096</u>
<b>Total Net Position</b>	<b><u>7,805,891</u></b>	<b><u>7,697,516</u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>8,247,611</u></b>	<b>\$ <u>8,075,059</u></b>



**National Science Foundation**  
**Statement of Net Cost**  
**For the Years Ended September 30, 2006 and 2005**  
**(Amounts in Thousands)**

<b>Program Costs</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Ideas</b>		
Fundamental Science & Engineering	\$ 2,333,848	\$ 2,327,110
Centers	182,486	176,183
Capability Enhancements	214,013	202,855
Total Ideas Program Costs	<u>2,730,347</u>	<u>2,706,148</u>
Less: Earned Revenue	(78,944)	(119,826)
<b>Net Ideas Program Costs</b>	<b><u>2,651,403</u></b>	<b><u>2,586,322</u></b>
<b>Tools</b>		
Large Facilities	\$ 535,284	\$ 531,911
Infrastructure and Instrumentation	418,095	321,155
Polar Tools, Facilities and Logistics	361,910	312,784
Federally Funded Research & Development Centers	227,158	209,570
Total Tools Program Costs	<u>1,542,447</u>	<u>1,375,420</u>
Less: Earned Revenue	(31,954)	(324)
<b>Net Tools Program Costs</b>	<b><u>1,510,493</u></b>	<b><u>1,375,096</u></b>
<b>People</b>		
Individuals	\$ 863,438	\$ 894,227
Institutions	158,259	179,356
Collaborations	427,089	379,489
Total People Program Costs	<u>1,448,786</u>	<u>1,453,072</u>
Less: Earned Revenue	(14,921)	(6,316)
<b>Net People Program Costs</b>	<b><u>1,433,865</u></b>	<b><u>1,446,756</u></b>
<b>Net Cost of Operations (Note 14)</b>	<b><u>\$ 5,595,761</u></b>	<b><u>\$ 5,408,174</u></b>

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



**National Science Foundation**  
**Statement of Changes in Net Position**  
**For the Year Ended September 30, 2006**  
**(Amounts in Thousands)**

	<b>2006</b>		
	<b>Earmarked</b>	<b>All Other</b>	<b>Total</b>
<b>Cumulative Results of Operations</b>			
<b>Beginning Balances (Note 13)</b>	<b>\$ 217,955</b>	<b>281,141</b>	<b>499,096</b>
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	5,501,447	5,501,447
Non-exchange Revenue and Other	-	278	278
Donations	-	31,142	31,142
Appropriated Earmarked Receipts Transferred In	105,324	-	105,324
<b>Other Financing Sources</b>			
Transfers In / (Out) Without Reimbursement	-	(257)	(257)
Imputed Financing From Costs Absorbed By Others	-	9,151	9,151
Other	-	(18)	(18)
<b>Total Financing Sources</b>	<b>105,324</b>	<b>5,541,743</b>	<b>5,647,067</b>
<b>Net Cost of Operations</b>	<b>43,997</b>	<b>5,551,764</b>	<b>5,595,761</b>
<b>Cumulative Results of Operations (Note 13)</b>	<b>\$ 279,282</b>	<b>271,120</b>	<b>550,402</b>
 <b>Unexpended Appropriations</b>			
<b>Beginning Balances</b>	<b>\$ -</b>	<b>7,198,420</b>	<b>7,198,420</b>
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	5,653,370	5,653,370
Appropriations Transferred In / (Out) (Note 15)	-	7,975	7,975
Other Adjustments	-	(102,829)	(102,829)
Appropriations Used	-	(5,501,447)	(5,501,447)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>57,069</b>	<b>57,069</b>
<b>Unexpended Appropriations</b>	<b>\$ -</b>	<b>7,255,489</b>	<b>7,255,489</b>



**National Science Foundation**  
**Statement of Changes in Net Position**  
**For the Year Ended September 30, 2005**  
**(Amounts in Thousands)**

	<b>2005</b>	
	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>	\$ 435,907	\$ 7,097,014
<b>Budgetary Financing Sources</b>		
Appropriations Received (Net of Offsetting Receipts)	-	5,516,960
Appropriations Transferred In / (Out) (Note 15)	-	9,670
Other Adjustments	-	(78,395)
Appropriations Used	5,346,829	(5,346,829)
Non-exchange Revenue and Other	87	-
Donations	31,077	-
Appropriated Earmarked Receipts Transferred In	83,677	-
<b>Other Financing Sources</b>		
Transfers In / (Out) Without Reimbursement	675	-
Imputed Financing From Costs Absorbed By Others	9,002	-
Other	16	-
<b>Total Financing Sources</b>	5,471,363	101,406
<b>Net Cost of Operations</b>	5,408,174	-
<b>Ending Balances (Note 13)</b>	\$ 499,096	\$ 7,198,420

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



National Science Foundation  
Statement of Budgetary Resources (page 1 of 2)  
For the Years Ended September 30, 2006 and 2005  
(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>
<b>Budgetary Resources</b>		
<b>Unobligated Balance - Brought Forward, October 1</b>	\$ 243,674	\$ 179,144
<b>Recoveries of Prior Year Obligations</b>	44,781	43,510
Budget Authority		
Appropriation	5,790,114	5,631,800
Spending Authority From Offsetting Collections:		
Earned		
Collected	124,165	114,517
Change in Receivable From Federal Sources	1,705	11,949
Change in Unfilled Customer Orders		
Advance Received	(13,577)	(8,240)
Without Advance From Federal Sources	(14,458)	(6,378)
Anticipated for Rest of Year, Without Advances	-	-
<b>Subtotal - Budget Authority</b>	<u>5,887,949</u>	<u>5,743,648</u>
<b>Non-expenditure Transfers, Net –</b>		
<b>Anticipated and Actual (Note 15)</b>	7,975	9,670
<b>Permanently Not available</b>	<u>(102,829)</u>	<u>(78,395)</u>
<b>Total Budgetary Resources (Note 17)</b>	\$ <u><u>6,081,550</u></u>	\$ <u><u>5,897,577</u></u>



**National Science Foundation**  
**Statement of Budgetary Resources (page 2 of 2)**  
**For the Years Ended September 30, 2006 and 2005**  
(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>
<b>Status of Budgetary Resources</b>		
Obligations Incurred:		
Direct (Note 16)	5,777,489	5,542,061
Reimbursable (Note 16)	100,517	111,842
Total Obligations Incurred (Note 15)	<u>5,878,006</u>	<u>5,653,903</u>
Unobligated Balance – Apportioned (Note 15)	120,872	155,531
Unobligated Balance - Not Available (Note 15)	82,672	88,143
<b>Total Status of Budgetary Resources (Note 17)</b>	<b>\$ <u>6,081,550</u></b>	<b>\$ <u>5,897,577</u></b>
<b>Change in Obligated Balance</b>		
Obligated Balance, Net		
Unpaid Obligations - Brought Forward, October 1	7,570,194	7,498,420
Less: Uncollected Customer Payments From		
Federal Sources, Brought Forward, October 1	<u>(139,683)</u>	<u>(134,112)</u>
Total Unpaid Obligated Balance, Net	7,430,511	7,364,308
Obligations Incurred	5,878,006	5,653,903
Less: Gross Outlays	(5,656,078)	(5,538,620)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(44,781)	(43,510)
Change in Uncollected Customer Payments From Federal Sources	<u>12,753</u>	<u>(5,570)</u>
Subtotal	<b>\$ <u>7,620,411</u></b>	<b>\$ <u>7,430,511</u></b>
Obligated Balance, Net - End of Period		
Unpaid Obligations	7,747,341	7,570,194
Less: Uncollected Customer Payments From Federal Sources	<u>(126,930)</u>	<u>(139,683)</u>
Total Unpaid Obligated Balance, Net - End of Period	<b>\$ <u>7,620,411</u></b>	<b>\$ <u>7,430,511</u></b>
<b>Net Outlays</b>		
Gross Outlays	5,656,078	5,538,620
Less: Offsetting Collections	(110,588)	(106,277)
Less: Distributed Offsetting Receipts (Note 17)	<u>(4,207)</u>	<u>(31,164)</u>
<b>Net Outlays (Note 17)</b>	<b>\$ <u>5,541,283</u></b>	<b>\$ <u>5,401,179</u></b>

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



**National Science Foundation**  
**Statement of Financing**  
**For the Years Ended September 30, 2006 and 2005**  
**(Amounts in Thousands)**

<b>Resources Used to Finance Activities</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 5,878,006	\$ 5,653,903
Less: Spending Authority for Offsetting Collections and Recoveries	(142,616)	(155,358)
Obligations Net of Offsetting Collections and Recoveries	5,735,390	5,498,545
Less: Offsetting Receipts	(4,207)	(31,164)
Net Obligations	5,731,183	5,467,381
<b>Other Resources</b>		
Transfers In	-	675
Imputed Financing	9,151	9,002
Net Other Resources Used to Finance Activities	9,151	9,677
<b>Total Resources Used to Finance Activities</b>	<b>5,740,334</b>	<b>5,477,058</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(148,852)	(83,636)
Resources that Fund Expenses Recognized in Prior Periods	(143)	(85)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,207	31,164
Resources that Finance the Acquisition of Assets	(22,431)	(35,793)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>(167,219)</b>	<b>(88,350)</b>
<b>Total Resources Used to Finance Net Cost of Operations</b>	<b>5,573,115</b>	<b>5,388,708</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>		
Other	3,993	790
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods (Note 19)	3,993	790
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	18,666	18,655
Other	(13)	21
Total Components of Net Cost of Operations that will not Require or Generate Resources	18,653	18,676
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>	<b>22,646</b>	<b>19,466</b>
<b>Net Cost of Operations (Note 14)</b>	<b>\$ <u>5,595,761</u></b>	<b>\$ <u>5,408,174</u></b>



## NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. While the statements have been prepared from the books and records of NSF in accordance with United States generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

#### C. Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting in addition to recognizing certain budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. NSF records grant expenses from expenditure reports submitted by the grantees.

#### D. Revenues and Other Financing Sources

NSF received the majority of its funding through appropriations contained in the Science, State, Justice, Commerce, 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 from a special funds receipt account that is reported as Earmarked funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies and allocation transfers from other federal agencies. NSF receives funds from receipts to the donation account. Also, NSF receives interest earned on overdue receivables and excess cash advances to grantees. The interest earned on overdue receivables is returned to the Treasury. Interest earned on excess cash advances to grantees is sent directly to the



Department of Health and Human Services in accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non Profit Organizations*.

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

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

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

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

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

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

Accounts Receivable consists of amounts due from governmental agencies, private organizations, and individuals. NSF establishes an allowance for loss on accounts receivable from private sources that are deemed uncollectible, but regards amounts due from other federal agencies as fully collectible. NSF writes off delinquent debt that is more than two years old. NSF also analyzes each account independently to assess collectability and the need for an offsetting allowance or write-off.

#### **G. Advances**

Advances consist of advances to grantees, contractors, and federal agencies. Advance payments are made to grant recipients so that recipients may incur expenses related to the approved grant. Payments are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. The total grant expenditures for the year include an estimate of the fourth quarter amounts due from and payable to grantees. The majority of NSF’s grantees are on a reimbursement basis. The grant accrual



calculation is based on historical trend analysis prepared by NSF. NSF uses a methodology to track the spending patterns by fiscal year and quarter for each of its fund groups. NSF has determined that each appropriation and the year of the appropriation have a noted spending pattern. Based on historical information NSF applies an average percentage rate to the current year grant related obligations for each individual appropriation within a fund group. The calculation provides NSF with the accrued expenditure. NSF estimates the ending cash on hand balance in total for its grantees after the accrued grant expenditure has been determined. Based on an average of six years of historical cash on hand data, NSF applies the negative cash on hand rate to the estimated ending cash on hand to determine the amount to record as a liability. The difference between the total expenditure amount accrued and the liability recorded is used to reduce the asset. Advances to contractors are payments made in advance of incurring expenses. Advances to federal agencies are only issued when agencies are operating under working capital funds and are unable to incur costs on a reimbursable basis. Advances are reduced when documentation supporting expenditures is received and recorded.

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

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

##### Equipment

- 5 years - computers and peripheral equipment, fuel storage tanks, laboratory equipment, and vehicles
- 7 years - communications equipment, office furniture and equipment, pumps and compressors
- 10 years - generators, Department of Defense equipment
- 20 years - long duration balloon facilities (LDB)

##### Aircraft and Satellites

- 7 years - aircraft, aircraft conversions, and satellites

##### Buildings and Structures

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

##### Internal Use Software

- 5 years - internal use software

##### Leasehold Improvements

The economic life of Leasehold Improvements is amortized over the number of years remaining on the occupancy agreement for the NSF headquarters building. In FY 2006, Leasehold Improvements completed during the year were amortized over 7 years. This represents the remaining years on NSF's lease with GSA.



The PP&E balance consists of Equipment, Aircraft and Satellites, Buildings and Structures, Leasehold Improvements, and Construction in Progress. Costs are accumulated in construction in progress until the complete project is accepted by NSF and at that time, project costs are capitalized and depreciated over the respective useful life of the asset. These balances are comprised of PP&E maintained “in-house” by NSF to support agency operations and PP&E under the U.S. Antarctic Program (USAP). The majority of USAP property is currently the custodial responsibility of Raytheon Technical Services Company, the NSF contractor for the program. Additionally, the U.S. Navy’s Space and Naval Warfare Center, the Air National Guard 109<sup>th</sup>, and Ken Borek Air have custodial responsibility for some USAP property.

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

*Internal Use Software:* NSF controls, values and reports purchased or developed software as tangible property assets, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10 – “Accounting for Internal Use Software.” NSF identifies software investments as accountable property for items that, in the aggregate, cost \$500 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 half year convention rule.

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

## I. Advances from Others

Advances from Others consist of prior year amounts obligated and advanced by other federal entities to NSF for grant administration and other services to be furnished under reimbursable agreements. Balances at the end of the year are adjusted by an allocated amount from the fourth quarter grantee expenditure



estimate described under Note 1G, *Advances*. The amount to be allocated is based on a percentage of reimbursable grant expenditures, by trading partner, to total grant expenditures.

#### J. Accounts Payable

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

#### K. Other Liabilities

Other liabilities consist of grant accruals, contract accruals, accrued payroll and benefits. Grant liabilities are estimated grantee expenses over and above the amount of advances given to grantees. At year-end, NSF accrues for the amount of estimated grantee expenses not covered by advances given to grantees. Contract accruals are estimated expenses over and above the amount of advances given to contractors. At year-end, NSF accrues the amount of estimated expenses not covered by advances given to contractors. Accrued payroll and benefits relate to services rendered by NSF employees but not yet paid. At year-end, NSF accrues the amount of wages and benefits earned, but not yet paid. NSF's payroll services are provided by the Department of the Interior.

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

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

#### M. Employee Benefits

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

#### N. Net Position

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

In 2006, the NSF has accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of the FASAB's SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2006.



This new standard amended SFFAS No.7, *Revenue and Other Financing Sources*, by:

- elaborating the special accountability needs associated with dedicated collections;
- separating dedicated collections into two categories – earmarked funds and fiduciary activity; and
- defining and providing accounting and reporting guidance for earmarked funds.

In accordance with SFFAS No. 27, NSF did not restate the prior period columns of the financial statements and related disclosures. See Note 13 for specific required disclosures related to NSF's earmarked funds.

#### O. Retirement Plan

In FY 2006, approximately 25 percent of NSF employees participated in the Civil Service Retirement System (CSRS), to which NSF made matching contributions equal to 7 percent of pay. The majority of NSF employees are covered by the Federal Employees Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a thrift savings plan to which NSF automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent of pay. NSF also contributes the employer's matching share for Social Security for FERS participants.

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

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.

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

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

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

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



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

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

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

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

#### Q. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and also in the note disclosures. Significant estimates underlying the accompanying financial statements include accounting for grants, contracts, accounts payable and USAP property. 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.

#### R. Reclassification of Statement of Budgetary Resources

The presentation used for the Statement of Budgetary Resources (SBR) prior to FY 2006 has been revised to reflect a new format required pursuant to the OMB Circular A-136, "Financial Reporting Requirements". Circular A-136 requires agencies to present both the FY 2006 and 2005 SBR in the same format. Accordingly, certain reclassifications were made to the previously issued FY 2005 SBR to conform to the new format.

**Note 2. Fund Balance with Treasury**

Fund Balance with Treasury consisted of the following components as of September 30, 2006 and 2005:

(Amounts in Thousands)	2006			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total
Obligated	\$ 7,431,272	5,852	183,286	7,620,410
Unobligated Available	7,662	17,709	95,501	120,872
Unobligated Unavailable	79,595	391	2,686	82,672
<b>Total Fund Balance with Treasury</b>	<b>\$ 7,518,529</b>	<b>23,952</b>	<b>281,473</b>	<b>7,823,954</b>

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

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

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

**Note 3. Cash and Other Monetary Assets**

NSF's Cash and Other Monetary Assets as of September 30, 2006 and 2005 consisted of the following:

(Amounts in Thousands)	2006	2005
Cash	\$ 12,898	10,879
Foreign Currency	43	317
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 12,941</b>	<b>11,196</b>



#### Note 4. Accounts Receivable, Net

##### Intragovernmental

The Intragovernmental Accounts Receivable consists of reimbursements and repayments due from other government agencies. As of September 30, 2006 and 2005, the amount of intragovernmental accounts receivable was \$37,530 thousand and \$35,825 thousand respectively.

##### Public

As of September 30, 2006 and 2005, Accounts Receivable (net) due from private organizations and individuals consisted of:

(Amounts in Thousands)	2006		2005	
Accounts Receivable	\$	146	\$	98
Allowance for Uncollectible Accounts		(7)		(1)
Net Amount Due	\$	139	\$	97

As of September 30, 2006 and 2005, the reconciliation of the allowance for uncollectible accounts is as follows:

(Amounts in Thousands)	2006		2005	
Beginning Allowance	\$	(1)	\$	-
Additions		(7)		(1)
Reductions (write-offs)		1		-
Ending Allowance	\$	(7)	\$	(1)

#### Note 5. Advances

As of September 30, 2006 and 2005, Advances consisted of the following components:

##### Intragovernmental

(Amounts in Thousands)	2006		2005	
Advances to Others	\$	35,189	\$	26,531

##### Public

(Amounts in Thousands)	2006		2005	
Advances to Grantees	\$	76,413	\$	65,123
Advances to Others		-		448
Advances to Contractors		98		4,090
Total Advances with the Public	\$	76,511	\$	69,661

**Note 6. General Property, Plant and Equipment, Net**

The components of General Property Plant and Equipment as of September 30, 2006 and 2005 were:

(Amounts in Thousands)	2006		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 129,604	\$ 110,148	\$ 19,456
Aircraft and Satellites	138,487	122,485	16,002
Buildings and Structures	129,025	51,181	77,844
Leasehold Improvements	3,686	1,112	2,574
Construction in Progress	141,880	-	141,880
Internal Use Software	7,879	5,203	2,676
Software in Development	915	-	915
<b>Total PP&amp;E</b>	<b>\$ 551,476</b>	<b>\$ 290,129</b>	<b>\$ 261,347</b>

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

**Note 7. Property, Plant and Equipment in the Custody of Other Entities**

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

At September 30, 2006 there were 23 Colleges or Universities that held NSF property but for which relevant net book value of such property was unavailable. There were 29 commercial entities that held NSF property, of which Vista Engineering, Inc. was the only entity to separately report NSF titled property in its audited financial statements. Per the financial statements, Vista Engineering, Inc. held NSF titled property with a net book value of \$195 thousand.

At September 30, 2005 there were 14 Colleges or Universities, and 23 commercial entities, that held NSF property but for which relevant net book value of such property was unavailable.

The amount of PP&E owned by NSF but in the custody of a FFRDC is identified in the following table and was obtained from the respective entities' audited financial statements. If NSF PP&E is not



separately stated on the entities' audited financial statements, the related amounts are annotated as Not Available (N/A) in the table.

(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	<u>2006</u>	<u>2005</u>	<u>Year End</u>
National Astronomy & Ionosphere Center - NAIC			
Cornell	\$ N/A	\$ N/A	6/30
National Center for Atmospheric Research - UCAR	N/A	179,884	9/30
National Optical Astronomy Observatories - AURA	N/A	432,105	9/30
National Radio Astronomy Observatory - AUI	N/A	N/A	9/30

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

Certain liabilities are not funded by current budgetary resources. As of September 30, 2006 and 2005, Liabilities Not Covered by Budgetary Resources consisted of the following:

<u>(Amounts in Thousands)</u>	<u>2006</u>	<u>2005</u>
Intragovernmental: FECA Employee Benefits	\$ 284	\$ 281
Public: FECA Employee Benefits	1,287	1,381
Accrued Annual Leave	13,892	12,951
Total Liabilities Not Covered by Budgetary Resources	15,463	14,613
Total Liabilities Covered by Budgetary Resources	426,257	362,930
Total Liabilities	\$ 441,720	\$ 377,543

### Note 9. Other Liabilities

These are current accrued liabilities, which consist of grant and contract accruals, accrued employer contributions for payroll and benefits, accrued payroll and benefits, and various employee related liabilities for payroll and benefit deductions. As of September 30, 2006 and 2005, these liabilities consisted of the following:

<u>(Amounts in Thousands)</u>	<u>2006</u>	<u>2005</u>
<u>Intragovernmental – Employer Contributions</u>		
Employer Contributions for Payroll Benefits and Other	\$ 712	\$ 671
Total Intragovernmental Employer Contributions	\$ 712	\$ 671

<u>(Amounts in Thousands)</u>	<u>2006</u>	<u>2005</u>
<u>Accrued Liabilities - Grants and Payroll</u>		
Contract Accrual	\$ 22,480	\$ -
Grant Accrual	347,737	293,631
Total Accrued Liabilities	\$ 370,217	\$ 293,631
Accrued Payroll and Benefits	6,753	6,322
Total Accrued Liabilities - Grants and Payroll	\$ 376,970	\$ 299,953



**Note 10. Leases**

NSF leases its headquarter buildings under an operating lease with the GSA. The following are schedules of future minimum rental payments required under leases that have initial or remaining terms in excess of a year.

(Amounts in Thousands)

Fiscal Year	Operating Lease Amount
2007	\$ 19,347
2008	19,477
2009	20,117
2010	20,275
2011	20,591
2012 and thereafter	45,374
Total Minimum Lease Payments	\$ 145,181

**Note 11. Estimated Clean up Cost Liability**

Environmental and Clean up Costs: The Toolik Field Station is operated by the Institute of Arctic Biology at the University of Alaska, Fairbanks. As the primary customer for the Institute, in FY 2006, NSF paid \$116 thousand which was the remaining balance of remediation costs for the Toolik Field Station oil spill that occurred on August 25, 2001.

Joint planning for the clean up of Cape Hallett, the former U.S. and New Zealand station was successful and no U.S. funds were spent during this period and the U.S. commitment is complete.

NSF is continuing its actions to assess the condition of the Columbia Scientific Balloon Facility (CSBF) site before completing a no-cost transfer through the GSA to the National Aeronautics and Space Administration (NASA). NASA engineers have reported 10 wells on the NSBF site and are aware of one contaminated well from battery disposal. NSF estimates, in consultation with the general counsel office, that the clean-up costs will range between \$50 thousand and \$200 thousand, the lower of which is reflected on the balance sheet as *Other Intragovernmental Liabilities*. This estimate is based upon the proposed NSF share of Phase II Environmental Due Diligence Audit (EDDA) of the CSBF assessment resulting from findings in the EDDA Phase I. A final report is due December 2007 at which time NSF will be able to evaluate whether future outflow is necessary.

**Note 12. Commitments and Contingencies**

Cost Incurred Audits: Raytheon Polar Services Company (Raytheon), a NSF contractor, manages one of NSF's major programs, USAP. Raytheon has undergone cost incurred audits for FY 2000 through FY 2004. As a result of these audits, \$55,500 thousand of costs are being questioned. The cost incurred audits for FY 2005 and FY 2006 have not been completed. A receivable related to this contingency is not reflected in the balance sheet due to the uncertainty of NSF recouping any of the questioned costs.

Claims: Contractor claims for additional compensation under a contract awarded by the United States Air Force for the reconfiguration of three NSF owned LC130 aircrafts, were paid by the Judgment Fund for \$3,000 thousand and are reflected on the *Other Intragovernmental Liabilities* line of the balance sheet.



NSF submitted a request for funds in its FY 2007 budget submission in order to reimburse the Judgment Fund. However, based on the Senate Appropriation Report, NSF may not be required to reimburse the Judgment Fund.

### Note 13. Earmarked Funds

In FY 1999, Title IV of the American Competitiveness and Workforce Improvement Act of 1998 (P.L. 105-277) established an H-1B Non immigrant petitioner account in the General Fund of the U.S Treasury. Funding is established from fees collected for alien, non immigrant status petitions. This law required 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 Non immigrant 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 and is enacted by legislation. These funds are included in the President's budget. The budgetary resources for the earmarked fund are recorded in the *Appropriated Earmarked Receipts Transferred In* general ledger account, and reported according to the guidance for earmarked funds.

(Amounts in Thousands)

#### 2006 Earmarked Funds

#### Balance Sheet as of September 30, 2006

Fund Balance with Treasury	\$	281,473
Advances		588
Total Assets	\$	282,061
Other Liabilities	\$	2,779
Total Liabilities	\$	2,779
Unexpended Appropriations	\$	-
Cumulative Results of Operations		279,282
Total Liabilities and Net Position	\$	282,061

#### Statement of Net Cost For the Year Ended September 30, 2006

Program Costs	\$	43,997
Less Earned Revenues		-
Net Program Costs		43,997
Net Cost of Operations	\$	43,997



(Amounts in Thousands)	<b>2006</b>	
	<b>Earmarked Funds</b>	
<b>Statement of Changes in Net Position For the Year Ended September 30, 2006</b>		
Net Position Beginning of Period	\$	217,955
Net Cost of Operation		(43,997)
Appropriated Earmarked Receipts Transferred In		105,324
Change in Net Position		<u>61,327</u>
Net Position End of Period	\$	<u>279,282</u>

New requirements under OMB Circular A-136 – Revised July 2006, state that material net position balances attributable to earmarked funds are reported separately from other funds. In addition, requirements advise that beginning balances shall agree with the amounts reported as net position on the prior year's balance sheet.

(Amounts in Thousands)		
Net Position – Cumulative results of operations as previously reported at September 30, 2005	\$	499,096
Less: non-earmarked funds	\$	(281,141)
Net Position – Cumulative results of operations – Earmarked funds, as reclassified at September 30, 2005	\$	217,955

## Note 14. Statement of Net Cost

### Major Program Descriptions

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

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

The Statement of Net Cost is a general overall presentation of NSF-wide expenses incurred by the agency. The presentation of the Statement of Net Cost is aligned with NSF's strategic goals of *Ideas, Tools, and People*. NSF's fourth strategic goal, *Organizational Excellence*, focuses on NSF's administrative and management activities. NSF has assigned ten investment categories that align to *Ideas, Tools and People*. The Investment categories for *Ideas* are Fundamental Science and Engineering; Centers; and Capability Enhancements. For *Tools* they are Large Facilities; Infrastructure and



Instrumentation; Polar Tools, Facilities and Logistics; and FFRDCs. For *People* they are Individuals; Institutions; and Collaborations. These goals are outlined in NSF's FY 2003 – 2008 Strategic Plan.

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

In FY 2006 and 2005, approximately 94 and 95 percent respectively, of NSF's budget authority is directly related to the *Ideas, Tools, and People* strategic areas of focus. The remaining percentage of NSF's investments supports *Organizational Excellence* activities. In FY 2006 and 2005, *Organizational Excellence* costs amounted to \$321,085 thousand and \$292,426 thousand, respectively. All organizational excellence costs are assigned on a prorated basis to the *Ideas, Tools and People* strategic areas.

In FY 2006 and 2005, organizational excellence activities include Salary & Expenses, NSB and Office of Inspector General (OIG) expenses which provide for salaries and benefits of persons employed at the NSF; general operating expenses, including key activities to advance NSF's information systems technology and to enhance staff training, audit and OIG activities, and OPM and DOL benefits costs paid on behalf of NSF. These indirect costs are allocated to NSF programs based on each program's direct costs.

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are identified as "intragovernmental." All earned revenues are funding sources provided through reimbursable agreements with other federal entities and are retained by NSF. Earned revenues are recognized when the related program or administrative expenses are incurred and are deducted from the full cost of the programs to arrive at the net cost of operating NSF's programs. In FY 2006, NSF re-categorized a number of program reference codes, which caused expenditures to be assigned to a different investment category than in FY 2005. NSF also refined its methodology for reporting on incomplete code strings. NSF applies an administrative fee for grant management services provided to other federal entities. The administrative fee is based on the ratio of prior year administrative costs to total expenses. The intragovernmental costs are as follows:

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

(Amounts in Thousands)		2006		
		<u>Federal</u>	<u>Public</u>	<u>Total</u>
<u>Ideas</u>				
Fundamental Science & Engineering	\$	9,187	2,324,661	2,333,848
Centers		-	182,486	182,486
Capability Enhancements		-	214,013	214,013
Total Ideas Program Cost		9,187	2,721,160	2,730,347
Less: Earned Revenue		(78,944)	-	(78,944)
Net Ideas		(69,757)	2,721,160	2,651,403
<u>Tools</u>				
Large Facilities	\$	10,992	524,292	535,284
Infrastructure and Implementation		16,398	401,697	418,095
Polar Tools, Facilities and Logistics		167,709	194,201	361,910
Federally Funded R&D Centers		9,400	217,758	227,158
Total Tools Program Cost		204,499	1,337,948	1,542,447
Less: Earned Revenue		(31,954)	-	(31,954)
Net Tools		172,545	1,337,948	1,510,493
<u>People</u>				
Individuals	\$	2,769	860,669	863,438
Institutions		568	157,691	158,259
Collaborations		46	427,043	427,089
Total People Program Cost		3,383	1,445,403	1,448,786
Less: Earned Revenue		(14,921)	-	(14,921)
Net People		(11,538)	1,445,403	1,433,865
Total Net Costs	\$	91,250	5,504,511	5,595,761



(Amounts in Thousands)	2005		
	Federal	Public	Total
<b>Ideas</b>			
Fundamental Science & Engineering	\$ 28,167	2,298,943	2,327,110
Centers	-	176,183	176,183
Capability Enhancements	-	202,855	202,855
Total Ideas Program Cost	28,167	2,677,981	2,706,148
Less: Earned Revenue	(119,826)	-	(119,826)
Net Ideas	(91,659)	2,677,981	2,586,322
<b>Tools</b>			
Large Facilities	\$ 10,399	521,512	531,911
Infrastructure and Implementation	16,836	304,319	321,155
Polar Tools, Facilities and Logistics	105,351	207,433	312,784
Federally Funded R&D Centers	6,067	203,503	209,570
Total Tools Program Cost	138,653	1,236,767	1,375,420
Less: Earned Revenue	(324)	-	(324)
Net Tools	138,329	1,236,767	1,375,096
<b>People</b>			
Individuals	\$ 4,116	890,111	894,227
Institutions	206	179,150	179,356
Collaborations	130	379,359	379,489
Total People Program Cost	4,452	1,448,620	1,453,072
Less: Earned Revenue	(6,316)	-	(6,316)
Net People	(1,864)	1,448,620	1,446,756
Total Net Costs	\$ 44,806	5,363,368	5,408,174

Gross Cost and Earned Revenue by Budget Functional Classification

Total Gross Cost and Earned Revenue by Budget Functional Classification for FY 2006 and 2005 were as follows:

Budget Functional Classification		2006		2005	
NSF - General Science, Space and Technology (Code 250)					
(Amounts in Thousands)					
Gross Cost	\$	5,721,580	\$	5,534,640	
Earned Revenue		(125,819)		(126,466)	
Net Cost	\$	5,595,761	\$	5,408,174	

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification for FY 2006 and 2005 were as follows:

<u>Budget Functional Classification</u>			
NSF - General Science, Space and Technology (Code 250)			
(Amounts in Thousands)		2006	2005
Gross Cost	\$	217,069	\$ 171,272
Earned Revenue		<u>(125,819)</u>	<u>(126,466)</u>
Net Cost	\$	91,250	\$ 44,806

**Note 15. Budgetary Resources**

In FY 2006 and 2005, Budget Authority increased as a result of non-expenditure transfers from the U.S. Agency for International Development in the amount of \$7,975 thousand and \$9,670 thousand, respectively. Budget Authority in FY 2006 was also adjusted for Congressional initiated rescissions contained in P.L. 109-108 and P.L. 109-148 totaling \$72,205 thousand. In FY 2005, Budget Authority was adjusted for Congressional initiated rescissions contained in P.L. 108-447 totaling \$44,136 thousand.

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

The status of Budgetary Resources as of September 30, 2006, consisted of Budgetary Resources obligated of \$5,878,006 thousand available authority of \$120,872 thousand and unavailable authority of \$82,672 thousand. The status of Budgetary Resources as of September 30, 2005, consisted of Budgetary Resources obligated of \$5,653,903 thousand available authority of \$155,531 thousand and unavailable authority of \$88,143 thousand.

**Note 16. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

OMB, Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, requires that direct and reimbursable obligations are reported as Category A, Category B, or Exempt from Apportionment. In FY 2006 and FY 2005, NSF's SF-132, *Apportionment and Reapportionment Schedule*, apportions all obligations incurred by activity, project, or object (Category B). In FY 2006 and FY 2005, direct obligations amounted to \$5,777,489 thousand and \$5,542,061 thousand, respectively; and reimbursable obligations amounted to \$100,517 thousand and \$111,842 thousand respectively.



## Note 17. 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 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 2006 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2007 and can be found on the OMB web site: <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2005 SBR and the related President's Budget are shown in a table below for Budgetary Resources, Obligations Incurred, Distributed Offsetting Receipts, and Net Outlays and any related difference. The difference reported under Budgetary Resources is due to reporting requirement differences 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. The differences reported under Distributed Offsetting Receipts and Net Outlays are the amounts of budgeted receipts reported in the donations account. In FY 2006, NSF corrected its reporting of budgeted receipts and excluded them from offsetting receipts.

(Amounts in Thousands)	FY 2005				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays	
Combined Statement of Budgetary Resources	\$ 5,897,577	\$ 5,653,903	\$ (31,164)	\$ 5,401,179	
Budget of the U.S. Government	\$ 5,809,000	\$ 5,649,000	\$ -	\$ 5,432,000	
Difference	\$ 88,577	\$ 4,903	\$ (31,164)	\$ (30,821)	

## Note 18. Undelivered Orders at the end of the Period

Beginning with FY 2006, the format of the SBR has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the years ended September 30, 2006 and 2005, Undelivered Orders amounted to \$7,338,624 thousand and \$7,233,315 thousand, respectively.



## Note 19. Statement of Financing Disclosures

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

Liabilities Not Covered by Budgetary Resources of \$15,463 thousand and \$14,613 thousand for FY 2006 and FY 2005, respectively, represent NSF's FECA liability to DOL and employees, leave earned but not taken, and lease liabilities. The amount reported on the Statement of Financing as *Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods* of \$3,993 thousand for FY 2006 and \$790 thousand for FY 2005, represents the change in NSF's expenses for unfunded liabilities for FECA, leave earned but not taken, and lease liabilities.

*This information is an integral part of the Financial Statement*



**Required Supplementary Stewardship Information**  
Stewardship Investments



## Stewardship Investments Research and Human Capital

(Dollar Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Research and Human Capital Activities</b>					
Basic Research	\$ 3,682,266	\$ 3,564,093	\$ 3,494,302	\$ 3,519,159	\$ 3,092,060
Applied Research	339,757	291,169	209,225	218,152	193,788
Education and Training	1,378,472	1,386,952	1,224,058	867,489	767,734
Non-Investing Activities	321,085	292,426	268,298	196,363	183,887
<b>Total Research &amp; Human Capital Activities</b>	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>	<u>\$ 4,801,163</u>	<u>\$ 4,237,469</u>

### Inputs, Outputs and/or Outcomes

#### Research and Human Capital Activities

##### Investments In:

Universities	\$ 3,994,682	\$ 3,970,851	\$ 3,705,751	\$ 3,310,365	\$ 2,919,897
Industry	199,523	223,563	196,260	178,000	185,062
Federal Agencies	221,002	143,316	107,212	144,792	106,458
Small Business	218,334	193,199	200,995	186,400	144,844
Federally Funded R&D Centers	1,088,039	1,003,711	985,665	981,606	881,208
	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>	<u>\$ 4,801,163</u>	<u>\$ 4,237,469</u>

##### Support To:

Scientists	\$ 473,457	\$ 454,053	\$ 477,970	\$ 427,304	\$ 394,144
Postdoctoral Programs	158,528	162,132	175,680	163,239	148,334
Graduate Students	544,513	538,233	546,084	475,315	402,620
	<u>\$ 1,176,498</u>	<u>\$ 1,154,418</u>	<u>\$ 1,199,734</u>	<u>\$ 1,065,858</u>	<u>\$ 945,098</u>

#### Outputs & Outcomes:

##### Number Of:

Awards Actions	22,000	22,000	23,000	23,000	21,000
Senior Researchers	32,000	32,000	31,000	30,000	28,000
Other Professionals	11,000	12,000	15,000	12,000	11,000
Postdoctoral Associates	5,000	6,000	6,000	6,000	6,000
Graduate Students	26,000	27,000	29,000	27,000	26,000
Undergraduate Students	27,000	33,000	35,000	32,000	32,000
K-12 Students	8,000	11,000	14,000	14,000	11,000
K-12 Teachers	59,000	74,000	86,000	85,000	84,000



NSF's mission is to support basic scientific research and research fundamental to the engineering process as well as science and engineering education programs. Toward this end, NSF's Stewardship Investments fall principally into the categories of Research and Human Capital. In Research, most NSF funding is devoted to basic research, with a relatively small share going to applied research. This funding supports both the conduct of research and the necessary supporting infrastructure, including state-of-the-art instrumentation, equipment, computing resources, and multi-user facilities such as digital libraries, observatories, and research vessels and aircraft. Basic and applied research costs are determined by prorating the program costs of *Tools* and *Ideas* reported on the *Statement of Net Cost*. The proration uses the basic and applied research percentages of total estimated research and development obligations reported in the current year Budget Request to OMB. The actual numbers are not available until later in the following fiscal year. Education and Training costs equate to *People* costs and Non-Investing activities reflect *Organizational Excellence* costs.

The data provided for Scientists, Postdoctoral Associates, and Graduate Students are obtained from NSF's proposal system and is information reported by each Principal Investigator. The number of award actions are actual values from NSF's Enterprise Information System (EIS). The remaining outputs and outcomes are estimates obtained annually from the NSF Directorates. They are reported in the annual Budget Request to OMB.

NSF's Human Capital investments focus principally on education and training, toward a goal of creating a diverse, internationally competitive and globally engaged workforce of scientists, engineers and well-prepared citizens. NSF supports activities to improve formal and informal science, mathematics, engineering and technology education at all levels, as well as public science literacy projects that engage people of all ages in life-long learning. The decrease in the number of people involved in NSF activities in FY 2006 reflects decreased funding for programmatic activities related to science and engineering education.



**Required Supplementary Information**  
Deferred Maintenance



## Deferred Maintenance

NSF performs condition assessment surveys in accordance with FASAB standards for capitalized property, plant and equipment to determine if any maintenance is needed to keep an asset in an acceptable condition or restore an asset to a specific level of performance. NSF considers deferred maintenance to be any maintenance that is not performed on schedule, unless it is determined from the condition of the asset that scheduled maintenance does not have to be performed. Deferred maintenance also includes any other type of maintenance that, if not performed, would render the PP&E non-operational. Circumstances such as non-availability of parts or funding are considered reasons for deferring maintenance.

NSF considered whether any scheduled maintenance necessary to keep fixed assets of the agency in an acceptable condition was deferred at the end of FY 2006 and FY 2005. Assets deemed to be in excellent or good condition are considered to be in acceptable condition. Assets in fair or poor condition are in unacceptable condition and the deferred maintenance required to get them to an acceptable condition are reported. NSF determines the condition of an asset in accordance with standards comparable to those used in the private industry. Due to the environment and remote location of Antarctica, all deferred maintenance on assets in fair or poor condition is considered critical in order to maintain operational status.

At September 30 for FY 2006, NSF determined that scheduled maintenance on 136 items of Antarctic equipment in fair or poor condition were not completed and were deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item approximated \$60 thousand. The items included light and heavy mobile equipment with a few items of power distribution. 127 items were rated to be in fair condition, and 9 were rated to be in poor condition. All of the equipment is considered critical to NSF operations and estimated to require \$170 thousand in maintenance.

At September 30 for FY 2005, NSF determined that scheduled maintenance on 141 items of Antarctic equipment was not completed and was deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item approximated \$8 thousand dollars. The items included light and heavy mobile equipment with a few items of power distribution and shop equipment. 134 items were rated to be in fair condition and 7 were rated to be in poor condition. All of the equipment is considered critical to NSF operations and estimated to require \$95 thousand in maintenance.



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

In the following table, NSF budgetary information for the fiscal periods ended September 30, 2006 and 2005, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budgetary accounts.



Combining Statement of Budgetary Resources (page 1 of 2)

	<u>2006</u>						<u>Total</u>
	(Amounts in Thousands)						
<b>Budgetary Resources</b>	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, S&amp;E, and NSB</u>	<u>Special and Donated</u>		
Unobligated Balance – Brought Forward, October 1	\$ 56,813	29,232	45,682	7,661	104,286	\$	243,674
Recoveries of Prior Year Obligations	26,789	12,766	28	2,121	3,077		44,781
Budget Authority:							
Appropriation	4,387,520	807,000	193,350	265,500	136,744		5,790,114
Spending Authority from Offsetting Collections:							
Earned:							
Collected	104,819	14,839	-	4,506	1		124,165
Change in Receivable from Federal Sources	474	1,141	-	90	-		1,705
Change in Unfilled Customer Orders:							
Advance Received	(2,192)	(11,385)	-	-	-		(13,577)
Without Advance from Federal Sources	(15,945)	1,492	-	(5)	-		(14,458)
Anticipated for Rest of Year, Without Advances	-	-	-	-	-		-
Subtotal – Budget Authority	4,474,676	813,087	193,350	270,091	136,745		5,887,949
Nonexpenditure Transfers, Net – Anticipated and Actual	7,725	-	-	250	-		7,975
Permanently Not Available	(75,524)	(19,467)	(2,469)	(5,369)	-		(102,829)
<b>Total Budgetary Resources</b>	<b>\$ 4,490,479</b>	<b>835,618</b>	<b>236,591</b>	<b>274,754</b>	<b>244,108</b>	<b>\$</b>	<b>6,081,550</b>
<b>Status of Budgetary Resources</b>							
Obligations Incurred:							
Direct	4,353,308	799,721	233,814	262,825	127,821		5,777,489
Reimbursable	87,401	8,604	-	4,512	-		100,517
Total Obligations Incurred	4,440,709	808,325	233,814	267,337	127,821		5,878,006



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

**2006**

(Amounts in Thousands)

Unobligated Balance - Apportioned	3,722	128	2,777	1,035	113,210	120,872
Unobligated Balance - Not Available	46,048	27,165	-	6,382	3,077	82,672
<b>Total Status of Budgetary Resources</b>	<b>\$ 4,490,479</b>	<b>835,618</b>	<b>236,591</b>	<b>274,754</b>	<b>244,108</b>	<b>\$ 6,081,550</b>
<b>Change in Obligated Balances</b>						
Obligated Balance, Net						
Unpaid Obligations - Brought Forward, October 1	5,599,212	1,556,429	211,273	52,485	150,795	7,570,194
Less: Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	(130,325)	(9,188)	-	(170)	-	(139,683)
Total Unpaid Obligated Balance, Net	5,468,887	1,547,241	211,273	52,315	150,795	7,430,511
Obligations Incurred	4,440,709	808,325	233,814	267,337	127,821	5,878,006
Less: Gross Outlays	(4,244,939)	(882,529)	(180,929)	(261,280)	(86,401)	(5,656,078)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(26,789)	(12,766)	(28)	(2,121)	(3,077)	(44,781)
Change in Uncollected Customer Payments from Federal Sources	15,470	(2,632)	-	(85)	-	12,753
Subtotal	<b>\$ 5,653,338</b>	<b>1,457,639</b>	<b>264,130</b>	<b>56,166</b>	<b>189,138</b>	<b>\$ 7,620,411</b>
Obligated Balance, Net – End of Period						
Unpaid Obligations	5,768,192	1,469,459	264,130	56,422	189,138	7,747,341
Less: Uncollected Customer Payments from Federal Sources	(114,854)	(11,820)	-	(256)	-	(126,930)
Total Unpaid Obligated Balance, Net - End of Period	<b>\$ 5,653,338</b>	<b>1,457,639</b>	<b>264,130</b>	<b>56,166</b>	<b>189,138</b>	<b>\$ 7,620,411</b>
<b>Net Outlays</b>						
Gross Outlays	4,244,938	882,529	180,930	261,280	86,401	5,656,078
Less: Offsetting Collections	(102,627)	(3,454)	-	(4,506)	(1)	(110,588)
Less: Distributed Offsetting Receipts	-	-	-	-	(4,207)	(4,207)
<b>Net Outlays</b>	<b>\$ 4,142,311</b>	<b>879,075</b>	<b>180,930</b>	<b>256,774</b>	<b>82,193</b>	<b>\$ 5,541,283</b>



Combining Statement of Budgetary Resources (page 1 of 2)

	<u>2005</u>						<u>Total</u>
	(Amounts in Thousands)						
<b>Budgetary Resources</b>	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, S&amp;E, and NSB</u>	<u>Special and Donated</u>		
Unobligated Balance – Brought Forward, October 1	\$ 58,948	32,768	37,124	7,564	42,740	\$	179,144
Recoveries of Prior Year Obligations	27,517	11,192	49	1,790	2,962		43,510
Budget Authority							
Appropriation	4,254,593	848,207	175,050	239,110	114,840		5,631,800
Spending Authority from Offsetting Collections:							
Earned:							
Collected	98,848	10,618	-	5,050	1		114,517
Change in Receivable from Federal Sources	11,847	146	-	(44)	-		11,949
Change in Unfilled Customer Orders:							
Advance Received	(2,463)	(5,777)	-	-	-		(8,240)
Without Advance from Federal Sources	(10,070)	3,692	-	-	-		(6,378)
Anticipated for Rest of Year, without Advances	-	-	-	-	-		-
Subtotal – Budget Authority	4,352,755	856,886	175,050	244,116	114,841		5,743,648
Non Expenditure Transfers, Net	9,420	-	-	250	-		9,670
Permanently Not Available	(55,103)	(18,743)	(1,400)	(3,149)	-		(78,395)
<b>Total Budgetary Resources</b>	<b>\$ 4,393,537</b>	<b>882,103</b>	<b>210,823</b>	<b>250,571</b>	<b>160,543</b>	<b>\$</b>	<b>5,897,577</b>
<b>Status of Budgetary Resources</b>							
Obligations Incurred:							
Direct	4,238,499	844,210	165,141	237,954	56,257		5,542,061
Reimbursable	98,225	8,661	-	4,956	-		111,842
Total Obligations Incurred	4,336,724	852,871	165,141	242,910	56,257		5,653,903



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

**2005**

(Amounts in Thousands)

Unobligated Balances - Apportioned	6,613	402	45,633	1,416	101,467	155,531
Unobligated Balances Not Available	50,200	28,830	49	6,245	2,819	88,143
<b>Total Status of Budgetary Resources</b>	<b>\$ 4,393,537</b>	<b>882,103</b>	<b>210,823</b>	<b>250,571</b>	<b>160,543</b>	<b>\$ 5,897,577</b>
<b>Change in Obligated Balances</b>						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	5,446,258	1,623,390	219,704	49,145	159,923	7,498,420
Less: Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	(128,547)	(5,351)	-	(214)	-	(134,112)
Total Unpaid Obligated Balance, Net	5,317,711	1,618,039	219,704	48,931	159,923	7,364,308
Obligations Incurred	4,336,724	852,871	165,141	242,910	56,257	5,653,903
Less: Gross Outlays	(4,156,256)	(908,639)	(173,522)	(237,778)	(62,425)	(5,538,620)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(27,517)	(11,192)	(49)	(1,790)	(2,962)	(43,510)
Change in Uncollected Customer Payments from Federal Sources	(1,776)	(3,838)	-	44	-	(5,570)
Subtotal	<b>\$ 5,468,886</b>	<b>1,547,241</b>	<b>211,274</b>	<b>52,317</b>	<b>150,793</b>	<b>\$ 7,430,511</b>
Obligated Balance, Net - End of Period						
Unpaid Obligations	5,599,211	1,556,429	211,274	52,487	150,793	7,570,194
Less: Uncollected Customer Payments from Federal Sources	(130,325)	(9,188)	-	(170)	-	(139,683)
Total Unpaid Obligated Balance, Net - End of Period	<b>\$ 5,468,886</b>	<b>1,547,241</b>	<b>211,274</b>	<b>52,317</b>	<b>150,793</b>	<b>\$ 7,430,511</b>
<b>Net Outlays</b>						
Gross Outlays	4,156,256	908,639	173,522	237,778	62,425	5,538,620
Less: Offsetting Collections	(96,385)	(4,841)	-	(5,050)	(1)	(106,277)
Less: Distributed Offsetting Receipts	-	-	-	-	(31,164)	(31,164)
<b>Net Outlay</b>	<b>\$ 4,059,871</b>	<b>903,798</b>	<b>173,522</b>	<b>232,728</b>	<b>31,260</b>	<b>\$ 5,401,179</b>