

CHAPTER II: FINANCIALS



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that in FY 2008 the National Science Foundation (NSF) received an unqualified audit opinion, affirming that NSF's financial statements for the year ended September 30, 2008, were presented fairly in all material respects, in conformity with U.S. generally accepted accounting principals. The audit report noted no material weaknesses or significant deficiencies. I am especially pleased that NSF has closed its FY 2007 significant deficiencies, largely as a result of our efforts in strengthening the Contract Monitoring Program and accounting and reporting for Property, Plant and Equipment (PP&E).

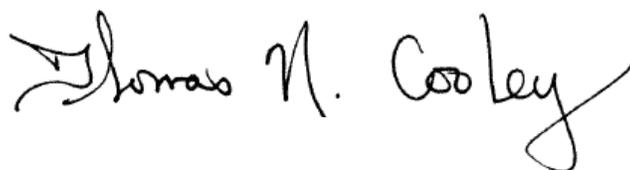
Of note this year is the agency's implementation of an agency-wide internal control program. In response to the Office of Management and Budget's (OMB) update of *Circular A-123*, NSF re-engineered the internal control program, from a "bottom up" to a "top down" approach. A "top down" approach more efficiently leverages existing control review processes, internal and external audit work, and other mandated reviews as well as provides greater assurance that all key controls are identified and assessed. In an effort that spanned three years, NSF documented and tested all key business processes and sub-processes. In the last year, emphasis was on refining our risk assessment methodology and strengthening documentation for grants and PP&E activities. The internal control review found no evidence of material weaknesses in either NSF's financial controls or entity-wide controls and management has determined that NSF programs and operations are protected in accordance with OMB guidance. (The management assurance statement is provided elsewhere in this report.) As we move forward, we will continue to examine our internal control structure to ensure it stays updated with changing events.

Other notable accomplishments during the year include the following:

- NSF successfully maintained a "Green" rating for the President's Management Agenda (PMA) financial performance initiative. NSF's financial performance initiative has been rated "Green" since inception of the PMA scorecard.
- NSF consistently received over 99 percent of quarterly Federal Cash Transaction Reports (FCTR) from grant recipients—a collection rate that significantly exceeds that of other federal agencies. As part of the Federal Grants Streamlining Initiative, beginning in January 2009, NSF will replace the FCTR with the new, more simplified Federal Financial Report (FFR). The NSF FFR pilot is the largest of the federal government; NSF will be the first federal agency to implement full use of the FFR. NSF continues to work with OMB to streamline and standardize federal grant recipient financial reporting and to replace the FCTR government-wide in FY 2009.
- NSF maintains an active leadership role in the federal grants management arena including the CFO Council Grants Policy Committee and the Grants Management Line of Business Initiative. NSF is forging the integration of grants and financial management that should result in considerable cost and operations efficiencies.

- For a second year, NSF is participating in OMB's Pilot Program for Alternative Approaches to Performance and Accountability reporting, for which we have prepared this *Annual Financial Report*. Our participation in the pilot is in line with the agency's commitment to continuing improvement in performance and accountability reporting to our stakeholders and the public. Our efforts have been recognized recently with awards from the League of American Communications Professionals and the Association of Marketing and Communications Professionals.

Sound financial management enables NSF to pursue the critical investments in science and engineering research and education that help ensure our nation's security, prosperity, and well being. As our work grows more complex and challenging with the increase in financial oversight and accountability requirements, I wish to acknowledge a diligent staff for their dedication to the Foundation.

A handwritten signature in black ink that reads "Thomas N. Cooley". The signature is written in a cursive style with a large, stylized initial 'T'.

Thomas N. Cooley
Chief Financial Officer
and Director of Budget, Finance, and Awards Administration

November 10, 2008

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230

NOV 12 2008



OFFICE OF
INSPECTOR GENERAL

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

Dr. Steven C. Beering
Chair, National Science Board

FROM: Dr. Christine C. Boesz 
Inspector General, National Science Foundation

SUBJECT: Audit of the National Science Foundation's
Fiscal Years 2008 and 2007 Financial Statements

This memorandum transmits Clifton Gunderson LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2008 and 2007.

Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Clifton Gunderson LLP, an independent public accounting firm (IPA), performed an audit of NSF's Fiscal Years 2008 and 2007 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended, issued by the United States Office of Management and Budget.

Clifton Gunderson LLP issued an unqualified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, Clifton Gunderson LLP reported no material weaknesses in internal control over financial reporting. The two internal control deficiency conditions noted in the FY 2007 auditor's report are no longer considered to be significant deficiencies, however, additional improvements are needed

which will be reported to management in a separate management letter. Clifton Gunderson LLP 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). Finally, Clifton Gunderson LLP found no instances of noncompliance with laws and regulations it tested, except for a potential matter of non-compliance with the Anti-Deficiency Act.

NSF management's response, dated November 10, 2008, follows Clifton Gunderson LLP's report.

Evaluation of Clifton Gunderson LLP's Audit Performance

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

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

Clifton Gunderson LLP is responsible for the attached auditor's report dated November 10, 2008, 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 on 703-292-4985.

Attachment

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

INDEPENDENT AUDITOR'S REPORT

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

In our audit of NSF for fiscal year (FY) 2008 we found:

- The NSF financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations;
- Significant progress has been made in FY 2008 on the two control deficiency conditions noted in the FY 2007 auditor's report and, accordingly, neither of those matters are considered to be a significant deficiency;
- No instances of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- No instances of noncompliance with laws and regulations, except for a potential matter of non-compliance with respect to the Anti-Deficiency Act.

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

OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, NSF's assets, liabilities, and net position as of September 30, 2008 and 2007; and net costs; changes in net position; and budgetary resources for the years then ended.

CONSIDERATION OF INTERNAL CONTROL

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or other significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We did, however, note other matters involving internal control and its operation that are not considered significant deficiencies, but are communicated in a separate management letter to NSF management.

SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

Except as noted below, our tests of NSF's compliance with selected provisions of laws and regulations for fiscal 2008 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The following matter was identified as a potential matter of non-compliance with the Anti-Deficiency Act:

- NSF's Office of General Counsel (OGC) is currently evaluating a potential Anti-Deficiency Act (ADA) violation pertaining to a FY 2006 \$88,000 payment to a contractor in excess of its related appropriation. In October 2008, OGC requested the Government Accountability Office (GAO) to assist them in determining NSF's compliance with the ADA for this matter. In addition, the matter was also shared with the OMB. NSF has not made a final legal determination on this potential non-compliance and, accordingly, has not yet needed to comply with the violation reporting requirements stipulated in OMB Circular A-11.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, we have reviewed the status of NSF's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 10, 2007. The prior year audit report noted two control deficiencies: 1) *Contract Monitoring* and 2) *Property, Plant and Equipment Accounting and Reporting*. NSF management has implemented substantial changes to its procedures in both these areas and, accordingly, neither of the prior year findings are considered a Significant Deficiency for purposes of this report.

CONSISTENCY OF OTHER INFORMATION

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

The introductory information, performance information and appendixes listed in the table of contents of the MD&A are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

OBJECTIVES, SCOPE AND METHODOLOGY

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

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether NSF's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Annual Financial Report.

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

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

We did not test compliance with all laws and regulations applicable to NSF. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to NSF's financial statements for the fiscal year ended September 30, 2008. We

caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report (Exhibit I), NSF concurred with the facts and conclusions in our report.

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

Clifton Henderson LLP

Calverton, Maryland
November 10, 2008

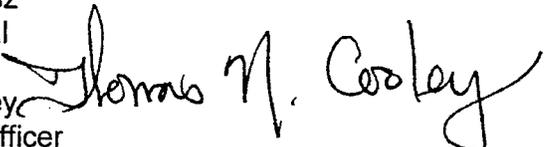
**NATIONAL SCIENCE FOUNDATION
MANAGEMENT'S RESPONSE TO FY 2008
INDEPENDENT AUDITOR'S REPORT
November 10, 2008**

NATIONAL SCIENCE FOUNDATION

4201 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22230

NOV 10 2008

To: Christine C. Boesz
Inspector General

From: Thomas N. Cooley 
Chief Financial Officer

Subject: Management's Response to Independent Auditor's Report for
Fiscal Year 2008

I am pleased to receive Clifton Gunderson's audit report on the National Science Foundation's (NSF) Fiscal Year (FY) 2008 financial statements.

This year's unqualified opinion was the result of the commitment and professionalism that both our offices demonstrated during the FY 2008 financial statement audit. During the entire audit process, NSF has worked very closely with the audit team to provide necessary and timely information.

NSF's efforts in strengthening its Contract Monitoring Program and accounting and reporting for property, plant and equipment (PP&E) resulted in an important achievement. I am proud that the Foundation has closed the FY 2007 significant deficiencies on "Contract Monitoring," and "PP&E Accounting and Reporting." I am also proud that NSF fully implemented its agency-wide internal controls program in FY 2008, as required by the OMB Circular A-123, Management's Responsibility for Internal Control. NSF developed a sustainable internal control program. As we move forward, we will continue to examine our internal control structure to ensure it stays updated with changing events.

NSF is committed to improving management over the agency programs, and to provide excellent service to our stakeholders and taxpayers. We will continue to work in partnership with the Clifton Gunderson audit team and the Office of Inspector General for an effective audit.

copies: Dr. Arden L. Bement, Jr.
Dr. Kathie Olsen



National Science Foundation

FINANCIAL STATEMENTS
As of and for the years ended
September 30, 2008 and 2007

**National Science Foundation
Balance Sheet
As of September 30, 2008 and 2007
(Amounts in Thousands)**

Assets	<u>2008</u>	<u>2007</u>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 8,672,672	\$ 8,310,182
Accounts Receivable	11,928	24,561
Advances (Note 3)	15,284	35,255
Total Intragovernmental Assets	<u>8,699,884</u>	<u>8,369,998</u>
Cash and Other Monetary Assets	30,410	16,228
Accounts Receivable, Net	391	247
Advances (Note 3)	54,549	79,326
General Property, Plant and Equipment, Net (Notes 4 and 5)	269,794	260,207
Total Assets	<u>\$ 9,055,028</u>	<u>\$ 8,726,006</u>
Liabilities		
Intragovernmental Liabilities		
Advances From Others	\$ 97,260	\$ 72,018
Employer Contributions and Other	1,270	745
FECA Employee Benefits	298	292
Other Intragovernmental Liabilities (Notes 6 and 8)	3,050	3,050
Total Intragovernmental Liabilities	<u>101,878</u>	<u>76,105</u>
Accounts Payable	50,066	38,358
FECA Employee Benefits	1,198	1,182
Accrued Liabilities - Grants	339,652	360,475
Accrued Liabilities - Contracts, Payroll, and Other	46,779	25,046
Accrued Annual Leave	15,475	14,264
Total Liabilities	<u>\$ 555,048</u>	<u>\$ 515,430</u>
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	\$ 7,813,135	\$ 7,587,271
Cumulative Results of Operations - Earmarked Funds (Note 9)	364,640	334,664
Cumulative Results of Operations - Other Funds	322,205	288,641
Total Net Position	<u>8,499,980</u>	<u>8,210,576</u>
Total Liabilities and Net Position	<u>\$ 9,055,028</u>	<u>\$ 8,726,006</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Net Cost
For the Years Ended September 30, 2008 and 2007
(Amounts in Thousands)

Program Costs	<u>2008</u>	<u>2007</u>
Research and Related Activities		
Gross Costs	\$ 4,835,276	\$ 4,507,933
Less: Earned Revenues	(99,471)	(68,500)
Net Research and Related Activities	<u>4,735,805</u>	<u>4,439,433</u>
Education and Human Resources		
Gross Costs	\$ 870,111	\$ 904,482
Less: Earned Revenues	(8,914)	(8,270)
Net Education and Human Resources	<u>861,197</u>	<u>896,212</u>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 232,158	\$ 222,926
Less: Earned Revenues	-	-
Net Major Research Equipment and Facilities Construction	<u>232,158</u>	<u>222,926</u>
Costs Not Assigned to Other Programs		
Gross Costs	\$ 115,647	\$ 77,558
Less: Earned Revenues	-	-
Net Costs Not Assigned to Other Programs	<u>115,647</u>	<u>77,558</u>
Net Cost of Operations (Note 10)	<u>\$ 5,944,807</u>	<u>\$ 5,636,129</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2008
(Amounts in Thousands)

	<u>2008</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
Cumulative Results of Operations			
Beginning Balances (Note 9)	\$ 334,664	288,641	623,305
Budgetary Financing Sources			
Appropriations Used	-	5,833,031	5,833,031
Non-exchange Revenue	-	509	509
Donations	-	61,495	61,495
Appropriated Earmarked Receipts Transferred In (Note 9)	104,430	-	104,430
Other Financing Sources			
Imputed Financing From Costs Absorbed By Others	-	9,048	9,048
Other	-	(166)	(166)
Total Financing Sources	104,430	5,903,917	6,008,347
Net Cost of Operations (Notes 9 and 10)	74,454	5,870,353	5,944,807
Cumulative Results of Operations (Note 9)	\$ 364,640	322,205	686,845
 Unexpended Appropriations			
Beginning Balances	\$ -	7,587,271	7,587,271
Budgetary Financing Sources			
Appropriations Received	-	6,127,500	6,127,500
Appropriations Transferred In / (Out)	-	(2,240)	(2,240)
Other Adjustments	-	(66,365)	(66,365)
Appropriations Used	-	(5,833,031)	(5,833,031)
Total Budgetary Financing Sources	-	225,864	225,864
Total Unexpended Appropriations	-	7,813,135	7,813,135
Net Position	\$ 364,640	8,135,340	8,499,980

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, 2007
(Amounts in Thousands)

	<u>2007</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
Cumulative Results of Operations			
Beginning Balances (Note 9)	\$ 279,282	271,120	550,402
Budgetary Financing Sources			
Appropriations Used	-	5,552,427	5,552,427
Non-exchange Revenue	-	407	407
Donations	-	40,874	40,874
Appropriated Earmarked Receipts Transferred In (Note 9)	107,359	-	107,359
Other Financing Sources			
Transfers In / (Out) Without Reimbursement	-	(2)	(2)
Imputed Financing From Costs Absorbed By Others	-	9,336	9,336
Other	-	(1,369)	(1,369)
Total Financing Sources	107,359	5,601,673	5,709,032
Net Cost of Operations (Notes 9 and 10)	51,977	5,584,152	5,636,129
Cumulative Results of Operations (Note 9)	\$ 334,664	288,641	623,305
 Unexpended Appropriations			
Beginning Balances	\$ -	7,255,489	7,255,489
Budgetary Financing Sources			
Appropriations Received	-	5,917,165	5,917,165
Appropriations Transferred In / (Out)	-	5,710	5,710
Other Adjustments	-	(38,666)	(38,666)
Appropriations Used	-	(5,552,427)	(5,552,427)
Total Budgetary Financing Sources	-	331,782	331,782
Total Unexpended Appropriations	-	7,587,271	7,587,271
Net Position	\$ 334,664	7,875,912	8,210,576

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, 2008 and 2007
(Amounts in Thousands)

	<u>2008</u>	<u>2007</u>
Budgetary Resources		
Unobligated Balance - Brought Forward, October 1	\$ 218,677	\$ 203,544
Recoveries of Prior Year Unpaid Obligations	59,168	44,474
Budget Authority		
Appropriation	6,293,934	6,065,805
Spending Authority From Offsetting Collections		
Earned		
Collected	121,234	90,844
Change in Receivables From Federal Sources	(12,634)	(12,972)
Change in Unfilled Customer Orders		
Advance Received	25,243	70,425
Without Advance From Federal Sources	(31,520)	(41,296)
Subtotal - Budget Authority	<u>6,396,257</u>	<u>6,172,806</u>
Nonexpenditure Transfers, Net - Actual	(2,240)	5,710
Permanently Not Available	(66,365)	(38,666)
Total Budgetary Resources (Note 13)	<u>\$ 6,605,497</u>	<u>\$ 6,387,868</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Budgetary Resources (page 2 of 2)
For the Years Ended September 30, 2008 and 2007
(Amounts in Thousands)

	<u>2008</u>	<u>2007</u>
Status of Budgetary Resources		
Obligations Incurred		
Direct (Note 12)	\$ 6,259,622	\$ 6,063,147
Reimbursable (Note 12)	102,305	106,044
Total Obligations Incurred (Notes 13 and 15)	<u>6,361,927</u>	<u>6,169,191</u>
Unobligated Balance - Apportioned (Note 2)	157,926	141,709
Unobligated Balance - Not Available (Notes 2 and 13)	85,644	76,968
Total Status of Budgetary Resources (Note 13)	<u><u>\$ 6,605,497</u></u>	<u><u>\$ 6,387,868</u></u>
Change in Obligated Balances		
Obligated Balance, Net		
Unpaid Obligations - Brought Forward, October 1	8,180,395	7,747,341
Less: Uncollected Customer Payments From Federal Sources - Brought Forward, October 1	(72,662)	(126,930)
Total Unpaid Obligated Balance, Net	<u>8,107,733</u>	<u>7,620,411</u>
Obligations Incurred (Note 13)	6,361,927	6,169,191
Less: Gross Outlays	(5,995,134)	(5,691,662)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(59,168)	(44,474)
Change in Uncollected Customer Payments From Federal Sources	44,154	54,267
Subtotal	<u>\$ 8,459,512</u>	<u>\$ 8,107,733</u>
Obligated Balance, Net - End of Period		
Unpaid Obligations	8,488,021	8,180,395
Less: Uncollected Customer Payments From Federal Sources	(28,509)	(72,662)
Total Unpaid Obligated Balance, Net - End of Period (Note 2)	<u>\$ 8,459,512</u>	<u>\$ 8,107,733</u>
Net Outlays		
Gross Outlays	5,995,134	5,691,662
Less: Offsetting Collections	(146,476)	(161,269)
Less: Distributed Offsetting Receipts	(1,038)	(1,535)
Net Outlays	<u><u>\$ 5,847,620</u></u>	<u><u>\$ 5,528,858</u></u>

The accompanying notes are an integral part of these 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 headed by Director who is appointed by the President and confirmed by the Senate. The National Science Board (NSB), also appointed by the President with the consent of the Senate, meets about six times a year to establish the overall policies of the Foundation. The NSB, composed of 24 members, represents a cross section of American leaders in science and engineering research and education; members are appointed 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 (U.S. GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

C. Basis of Accounting

The accompanying financial statements have been prepared in accordance with U.S. GAAP for federal entities using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accompanying financial statements also include budgetary accounting transactions that facilitate compliance with legal constraints and controls over the use of federal funds.

D. Revenues and Other Financing Sources

NSF receives the majority of its funding through appropriations contained in the 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 via warrant from a special earmarked receipt account that is reported as H-1B funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies as well as from receipts to the donation account. Also, NSF receives interest earned on overdue receivables and excess cash advances to grantees. The interest earned on overdue receivables and excess cash advances to grantees is returned to the Treasury at the end of each fiscal year.

The Consolidated Appropriations Act of fiscal year 2008 under Public Law 110-161 provides funding for each of NSF's appropriations and rescinds a portion of carryover funding from prior years. Additionally, on June 30, 2008 Congress passed a Supplemental Appropriations Act under Public Law 110-252 that

provides annual funding to the Research and Related Activities and Education and Human Resources appropriations.

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

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

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

Cash receipts and disbursements are processed by 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 and undeposited collections.

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

G. Advances

Advances consist of advances to grantees, contractors, and federal agencies. Advance payments are made to grant recipients so that recipients may incur expenditures related to the approved grant. Payments are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Advances to contractors are payments made in advance of incurring expenditures. Advances to federal agencies are 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)

NSF capitalizes PP&E with costs exceeding \$25 and useful lives of two or more years; those not meeting these criteria are recorded as operating expenses. NSF currently reports capitalized PP&E at original acquisition cost; assets acquired from the General Services Administration (GSA) excess property schedules are recorded at the value assigned by the donating agency; assets transferred in from other agencies are at the cost recorded by the transferring entity for the asset net of accumulated depreciation or amortization.

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

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

Depreciation expense is calculated using the straight line half year convention. The economic useful life classifications for capitalized assets are as follows:

Equipment

5 years	computers and peripheral equipment, fuel storage tanks, laboratory equipment, and vehicles
7 years	communications equipment
10 or 15 years	generators, Department of Defense equipment
20 years	movable buildings (e.g. trailers)

Aircraft and Satellites

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

Buildings and Structures

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

Leasehold Improvements

The cost of leasehold improvements performed by GSA is financed with NSF appropriated funds. Amortization is calculated using the straight line half year convention upon transfer from construction in progress. In fiscal year 2008, leasehold improvements completed during the year were amortized over 5 years, the remaining years on NSF's lease with GSA.

Office Space: The NSF Headquarter 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. Therefore, the cost of the Headquarter buildings is not capitalized by NSF.

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 or more to purchase, develop, enhance, or modify a new or existing NSF system. Software projects that are not completed at

year-end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight line half year convention.

Assets Owned by NSF in the Custody of Other Entities: NSF awards grants, cooperative agreements, and contracts to various organizations, including colleges and universities, non-profit organizations, state and local governments, Federally Funded Research and Development Centers (FFRDCs), and private entities. The funds provided may be used in certain cases to purchase or construct PP&E to be used for operations or research on projects or programs sponsored by NSF. In these instances, NSF funds the acquisition of property, but transfers control of the assets to these entities. NSF's authorizing legislation specifically prohibits the Foundation from operating such property directly.

In practice, NSF's ownership interest in such PP&E is similar to a reversionary interest. To address the accounting and reporting of these assets, specific guidance was sought by NSF and provided by the Federal Accounting Standards Advisory Board (FASAB). This guidance stipulates that NSF should: (i) disclose the value of such PP&E held by others in its financial statements based on information contained in the audited financial statements of these entities (if available); and (ii) report information on costs incurred to acquire the research facilities, equipment, and platforms in the Research and Human Capital Activity costs as required by the SFFAS No. 8, "Supplementary Stewardship Reporting." Very few entities disclose information on NSF titled property in their audited financial statements. Therefore, NSF has elected to disclose only the number of entities in possession of NSF owned property. Entities that separately present the book value of NSF titled property in their audited financial statements and all FFRDCs are listed in Note 5 along with the book value of the property held.

I. Advances From Others

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

J. Accounts Payable

Accounts Payable consist of liabilities to federal agencies, commercial vendors, contractors, and disbursements in transit. Accounts payable to federal agencies, commercial vendors, and contractors are expenses for goods and services received but not yet paid by NSF at the end of the fiscal year. At year-end, NSF accrues for the amount of estimated unpaid expenditures to commercial vendors for which invoices have not been received, but goods and services have been delivered and rendered. Accounts payable also consist of disbursements in transit recorded by NSF but not paid by Treasury.

K. Accrued Liabilities – Grants

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

NSF estimates the ending cash on hand balance in total for its grantees after the accrued grant expenditures have 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 advance.

L. Accrued Liabilities - Contracts, Payroll, and Other

Accrued Liabilities - Contracts, Payroll, and Other consist of contract accruals, accrued payroll, and benefits. The total contracts liabilities for the year are determined based on an estimate of prior quarter expenditures incurred by the three contractors that are funded on an advance basis. Expenditures are estimated for each contractor by computing an average of the previous four quarters of actual expenditures reported. The accrual increases expenditures and decreases the advance account. If the estimated accrual amount exceeds total advances, an accrued liability is recorded for the excess. NSF's payroll services are provided by the National Business Center under the Department of the Interior. 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.

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect changes. To the extent current and prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future Agency Operations and Award Management appropriations. Sick leave and other types of non-vested 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 Agency Operations and Award Management 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 undelivered orders and unobligated balances of budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations is the net result of NSF's operations since inception.

O. Retirement Plan

In fiscal year 2008, approximately 19 percent of NSF employees participated in the Civil Service Retirement System (CSRS), to which NSF matches contributions equal to 7 percent of pay. The majority of NSF employees are covered by the Federal Employees Retirement System (FERS) and Social Security. A primary feature of FERS is a thrift savings plan to which NSF automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent of pay. NSF also contributes the employer's matching share for Social Security for FERS participants.

Although NSF funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, the Foundation has no liability for future payments to employees under these plans, nor does NSF report CSRS, FERS, Social Security assets, or accumulated

plan benefits, on its financial statements. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM) and The Federal Retirement Thrift Investment Board.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information is also provided by OPM regarding the full cost of health and life insurance benefits on the OPM Benefit Administration Website: <http://www.opm.gov/asd/pdf/2008/08-304.pdf>.

P. Contingencies and Possible Future Costs

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

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

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

Termination Claims: NSF engages organizations 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.

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, revenues, and expenses, and also in the note disclosures. Estimates underlying the accompanying financial statements include accounting for grants; contracts; accounts payable; payroll; and property, plant and equipment. Actual results may differ from these estimates, and the difference will be adjusted for and included in the financial statements of the following fiscal year.

Note 2. Fund Balance With Treasury

Fund Balance With Treasury consisted of the following components as of September 30, 2008 and 2007:

(Amounts in Thousands)	2008			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total
Obligated	\$ 8,104,439	\$ 37,853	\$ 317,220	\$ 8,459,512
Unobligated Available	66,934	44,028	46,964	157,926
Unobligated Unavailable	81,779	-	3,865	85,644
Less: Budgetary Non-FBWT	-	(30,410)	-	(30,410)
Total FBWT	\$ 8,253,152	\$ 51,471	\$ 368,049	\$ 8,672,672

(Amounts in Thousands)	2007			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total
Obligated	\$ 7,809,538	\$ 24,271	\$ 273,924	\$ 8,107,733
Unobligated Available	50,894	31,369	59,446	141,709
Unobligated Unavailable	73,034	10	3,924	76,968
Less: Budgetary Non-FBWT	-	(16,228)	-	(16,228)
Total FBWT	\$ 7,933,466	\$ 39,422	\$ 337,294	\$ 8,310,182

The Donations Account includes amounts donated to NSF from all sources. Funds in the Donations Account may be used in furtherance of one or more of the general purposes of the Foundation. The donated funds are held as Fund Balance With Treasury (FBWT) or as non-FBWT with budgetary resources which represent cash held outside of Treasury at commercial banks in interest bearing accounts. These funds are collateralized up to \$33,200 by the bank through the Federal Reserve Bank of St. Louis in accordance with Treasury Financial Manual Volume 1, Chapter 6-9000. Unobligated Unavailable balances include recoveries of prior year obligations and other unobligated expired funds that are unavailable for new obligations.

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

Note 3. Advances

Intragovernmental

As of September 30, 2008 and 2007, Intragovernmental Advances were \$15,284 and \$35,255 respectively.

Public

(Amounts in Thousands)	2008	2007
Advances to Grantees	\$ 54,549	\$ 68,578
Advances to Contractors	-	10,748
Total Advances to the Public	\$ 54,549	\$ 79,326

Note 4. General Property, Plant and Equipment, Net

The components of General Property, Plant and Equipment as of September 30, 2008 and 2007 were:

(Amounts in Thousands)	2008		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 117,839	\$ (94,592)	\$ 23,247
Aircraft and Satellites	138,487	(135,287)	3,200
Buildings and Structures	274,776	(76,848)	197,928
Leasehold Improvements	6,490	(2,580)	3,910
Construction in Progress	26,167	-	26,167
Internal Use Software	7,091	(6,447)	644
Software in Development	14,698	-	14,698
Total PP&E	\$ 585,548	\$ (315,754)	\$ 269,794

(Amounts in Thousands)	2007		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 108,239	\$ (90,329)	\$ 17,910
Aircraft and Satellites	138,487	(128,886)	9,601
Buildings and Structures	240,165	(67,208)	172,957
Leasehold Improvements	4,688	(1,591)	3,097
Construction in Progress	52,043	-	52,043
Internal Use Software	7,879	(6,344)	1,535
Software in Development	3,064	-	3,064
Total PP&E	\$ 554,565	\$ (294,358)	\$ 260,207

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

As explained in Note 1H, in the *Assets Owned by NSF in the Custody of Other Entities* section, NSF received a ruling from FASAB on accounting for PP&E owned by NSF but in the custody of and used by

others. The FASAB guidance requires PP&E in the custody of others be excluded from NSF PP&E as defined in the SFFAS No. 6 "Accounting for Property, Plant and Equipment." NSF is required to disclose the dollar amount of NSF PP&E held by others in the footnotes based on information contained in the most recently issued audited financial statements of the organization holding the assets.

At September 30, 2008 there were 33 colleges or universities, and 32 commercial entities that held property titled to NSF. None of the colleges or universities reported NSF titled property separately; however, one commercial entity, UNAVCO Inc., reported NSF titled property with a net book value of \$18,786.

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

(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	<u>Amount</u>	<u>Fiscal Year Ending</u>
National Astronomy & Ionosphere Center (Cornell) - NAIC	\$ N/A	6/30
University Corporation for Atmospheric Research - UCAR	168,550	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	465,584	9/30
National Radio Astronomy Observatory - AUI	N/A	9/30

Note 6. Estimated Clean-Up Cost Liability

Antarctic

NSF is not legally liable for environmental clean-up costs in the Antarctic. Article 16 to the Protocol on Environmental Protection to the Antarctic Treaty (1991) requires that the Treaty Parties "undertake to elaborate rules and procedures relating to liability for damage arising from activities taking place in the Antarctic Treaty area. . ." Negotiations relating to the terms of the Liability Annex were concluded and the terms of the Annex finalized in 2005. The liability contemplated by the Annex is narrow: it is only prospective in its focus and generally imposes liability only when an operator fails to take response action to an environmental emergency. Regardless, as the Annex cannot enter into force until all 28 Antarctic Treaty Consultative Parties have ratified its provisions (which typically requires the enactment of national laws by each Consultative Party), no legal liability for environmental clean up costs will arise for NSF for many years to come.

There are occasions when the NSF Office of Polar Programs (OPP) chooses to accept responsibility and commit funds toward clean-up efforts of various sites as resources permit. Those decisions are in no way driven by concerns of probable legal liability for failure to engage in such efforts, but rather, a commitment to environmental stewardship of Antarctic natural resources. For those projects/incidents that OPP decides it may fund and that cannot be accomplished within allocated operations and maintenance funding, the support contractor is directed to develop a preliminary estimate. Final estimates, and approval to proceed, will depend on an assessment of risk to the environment, availability of personnel, and accessibility to a site in any given year.

Environmental clean-up projects started and completed during the year are reflected in NSF's financial statements as expenses for the current fiscal year. However, for approved projects that are anticipated to be performed after the fiscal year-end or will take more than one fiscal year to complete, an estimated cost is accrued in NSF's financial statements. At September 30, 2008 and 2007, no funds have been accrued for multi-year environmental clean-up projects in the Antarctic.

Other

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 reported ten wells on the CSBF site and are aware of one contaminated well from battery disposal. Future outflow is probable, however predicting the cost for remediation of unknown contaminants is uncertain. NSF has paid and transferred funds to NASA for completion of Phase I and II of the Environmental Due Diligence Audit (EDDA) for the CSBF environmental assessment. A final Affected Property Assessment Report (APAR) was delivered in February 2008 to the Texas Commission on Environmental Quality (TCEQ). The TCEQ has requested additional testing of a new monitoring well for sampling over a six month period.

NSF estimates, in consultation with the Office of General Counsel, that the clean-up costs will range between \$50 and \$200, the lower of which is reflected on the balance sheet as Other Intragovernmental Liabilities. This estimate is based upon the potential need for additional activities associated with the Phase II Sampling and Analysis and testing of an additional monitoring well.

Note 7. Leases

NSF leases its Headquarter buildings under an operating lease with the GSA. The following is a schedule of future minimum rental payments for the Headquarter buildings.

(Amounts in Thousands)

Fiscal Year	Operating Lease Amount
2009	\$ 20,604
2010	20,302
2011	20,591
2012	20,911
2013	19,882
2014	4,581
Total Minimum Lease Payments	\$ 106,871

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

Note 8. Commitments and Contingencies

Cost Incurred Audits: A large NSF contractor provides maintenance and operations services to the United States Antarctic Program. Cost incurred audits have been completed on the contractor for fiscal years 2000 to 2004. Of the amount originally questioned, \$29,000 remains unresolved. A corresponding receivable is not reflected in the balance sheet due to the uncertainty of NSF recovering any of these questioned costs.

Claims: Contractor claims for additional compensation under a contract awarded by the United States Air Force (USAF) for the reconfiguration of three NSF owned LC130 aircrafts, were paid by the Treasury Judgment Fund for \$3,000 and are reflected on the Other Intragovernmental Liabilities line of the balance sheet. In a good faith effort to make the Treasury Judgment Fund whole, NSF submitted a request for funds in its fiscal year 2007 budget submission in order to reimburse the Treasury Judgment Fund. However, neither the year-long continuing resolution of fiscal year 2007, nor the appropriations bill of fiscal year 2008 provided those funds. NSF continues to maintain that USAF should be the responsible party, and is seeking a decision from the Department of Justice Office of Legal Counsel to that effect.

FFRDC Termination Claims: NSF provides financial assistance for the operation and maintenance of four FFRDCs by cooperative agreement. These agreements include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event an agreement is not renewed or is terminated.

NSF is obligated to pay termination expenses in excess of the limitation of funds set forth in the agreements, including any Post Retirement Benefit liabilities, only if funds are appropriated for this specific purpose. Nothing in these agreements can be construed as implying that Congress will appropriate funds to meet the terms of any claims. Although one FFRDC operator has identified these payments as a current obligation of NSF, the termination clause of the agreement clearly states that any obligation for these expenses exists only upon termination of the agreement and is limited to the lesser of available appropriations or \$25,000.

NSF considers non-renewal or termination of these cooperative agreements only remotely possible. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the cooperative agreement is terminated.

Note 9. Earmarked Funds

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

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

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

Notes to the Principal Financial Statements
September 30, 2008 and 2007 (Dollar Amounts in Thousands)

(Amounts in Thousands)	2008 Earmarked Funds	2007 Earmarked Funds
Balance Sheet as of September 30, 2008 and 2007		
Fund Balance with Treasury	\$ 368,049	\$ 337,294
Advances	631	596
Total Assets	<u>368,680</u>	<u>337,890</u>
Other Liabilities	4,040	3,226
Total Liabilities	<u>4,040</u>	<u>3,226</u>
Cumulative Results of Operations	364,640	334,664
Total Liabilities and Net Position	<u>\$ 368,680</u>	<u>\$ 337,890</u>
Statement of Net Cost for the Years Ended September 30, 2008 and 2007		
Program Costs	\$ 74,454	\$ 51,977
Less: Earned Revenues	-	-
Net Cost of Operations	<u>\$ 74,454</u>	<u>\$ 51,977</u>
Statement of Changes in Net Position For the Years Ended September 30, 2008 and 2007		
Net Position Beginning of Period	\$ 334,664	\$ 279,282
Appropriated Earmarked Receipts Transferred In	104,430	107,359
Net Cost of Operation	(74,454)	(51,977)
Change in Net Position	<u>29,976</u>	<u>55,382</u>
Net Position End of Period	<u>\$ 364,640</u>	<u>\$ 334,664</u>

Note 10. Statement of Net Cost

Major Program Descriptions

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

The strategic goals outlined are: Discovery, Learning, and Research Infrastructure. NSF's fourth strategic goal, Stewardship, focuses on NSF's administrative and management activities. In pursuit of its mission, NSF makes investments in Discovery, Learning, and Research Infrastructure. These goals reflect outcomes at the heart of the research enterprise: fostering research that will advance the frontiers of knowledge (Discovery); cultivating a world-class, broadly inclusive science and engineering workforce and expanding the scientific literacy of all citizens (Learning); and building the nation's research capability through critical investments in advanced instrumentation, facilities, cyberinfrastructure, and experimental tools (Research Infrastructure).

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

At September 30, 2008 and 2007, approximately 95 percent of NSF's expenses were directly related to the Discovery, Learning, and Research Infrastructure strategic outcome goals. Net costs for each strategic goal is determined by allocating total costs by the percentage for which obligations for each strategic outcome goal accounted for total obligations in the current year. All NSF earmarked funds are allocated to the Learning strategic goal. The remaining portion of NSF's expenses relate to the Stewardship strategic goal.

At September 30, 2008 and 2007, costs related to the Stewardship activities totaled \$283,245 and \$275,993, respectively. All Stewardship costs are prorated to the other three strategic goals based on the percentage that each Strategic Goal's expenditures account for the total expenditures of appropriated, trust, and earmarked funds.

In accordance with *OMB Circular A-136*, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are identified as "federal." All earned revenues are offsetting collections provided through reimbursable agreements with other federal entities and are retained by NSF. Earned revenues are recognized when the related program or administrative expenses are incurred and are deducted from the full cost of the programs to arrive at the net cost of operating NSF's programs. NSF applies a cost recovery fee on other federal entities consistent with applicable legislation and Government Accountability Office decisions. NSF recovers the costs incurred in the management, administration, and oversight of activities authorized and/or funded by interagency agreements where NSF is the performing agency.

Notes to the Principal Financial Statements
September 30, 2008 and 2007 (Dollar Amounts in Thousands)

Intragovernmental and Public Costs and Earned Revenue by Strategic Goal

(Amounts in Thousands)	2008		
	Federal	Public	Total
Research and Related Activities			
Discovery	\$ 155,978	2,621,404	2,777,382
Learning	40,162	674,975	715,137
Research Infrastructure	75,410	1,267,347	1,342,757
Total Research and Related Activities	271,550	4,563,726	4,835,276
Less: Earned Revenue	(99,471)	-	(99,471)
Net Research and Related Activities	172,079	4,563,726	4,735,805
Education and Human Resources			
Discovery	\$ 2,942	496,850	499,792
Learning	758	127,932	128,690
Research Infrastructure	1,422	240,207	241,629
Total Education and Human Resources	5,122	864,989	870,111
Less: Earned Revenue	(8,914)	-	(8,914)
Net Education and Human Resources	(3,792)	864,989	861,197
Major Research Equipment and Facilities Construction			
Discovery	\$ 4,350	129,002	133,352
Learning	1,120	33,216	34,336
Research Infrastructure	2,103	62,367	64,470
Total Major Research Equipment and Facilities Construction	7,573	224,585	232,158
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	7,573	224,585	232,158
Costs Not Assigned To Other Programs			
Learning	\$ 542	76,863	77,405
Research Infrastructure	-	38,242	38,242
Total Costs Not Assigned To Other Programs	542	115,105	115,647
Less: Earned Revenue	-	-	-
Net Costs Not Assigned To Other Programs	542	115,105	115,647
Net Cost of Operations	\$ 176,402	5,768,405	5,944,807

Notes to the Principal Financial Statements
September 30, 2008 and 2007 (Dollar Amounts in Thousands)

(Amounts in Thousands)	2007		
	Federal	Public	Total
Research and Related Activities			
Discovery	\$ 115,522	2,478,343	2,593,865
Learning	28,328	607,741	636,069
Research Infrastructure	56,918	1,221,081	1,277,999
Total Research and Related Activities	200,768	4,307,165	4,507,933
Less: Earned Revenue	(68,500)	-	(68,500)
Net Research and Related Activities	132,268	4,307,165	4,439,433
Education and Human Resources			
Discovery	\$ 2,828	517,611	520,439
Learning	694	126,929	127,623
Research Infrastructure	1,393	255,027	256,420
Total Education and Human Resources	4,915	899,567	904,482
Less: Earned Revenue	(8,270)	-	(8,270)
Net Education and Human Resources	(3,355)	899,567	896,212
Major Research Equipment and Facilities Construction			
Discovery	\$ 8,775	119,496	128,271
Learning	2,152	29,303	31,455
Research Infrastructure	4,324	58,876	63,200
Total Major Research Equipment and Facilities Construction	15,251	207,675	222,926
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	15,251	207,675	222,926
Costs Not Assigned To Other Programs			
Learning	\$ -	54,120	54,120
Research Infrastructure	516	22,922	23,438
Total Costs Not Assigned To Other Programs	516	77,042	77,558
Less: Earned Revenue	-	-	-
Net Costs Not Assigned To Other Programs	516	77,042	77,558
Net Cost of Operations	\$ 144,680	5,491,449	5,636,129

Note 11. Permanent Indefinite Appropriations

NSF maintains permanent indefinite appropriations for Research and Related Activities (R&RA) and Major Research Equipment and Facilities Construction (MREFC).

The R&RA appropriation is used for polar research and operations support and for reimbursement to other federal agencies for operational and science support and logistical and other related activities for the United States Antarctic program. In fiscal years 2008 and 2007, the permanent indefinite appropriations for R&RA were \$444,010 and \$439,550, respectively, and are reported as current year transfers from the annual R&RA appropriation.

The MREFC appropriation supports the construction and procurement of unique national research platforms and major research equipment. In fiscal years 2008 and 2007, the permanent indefinite appropriations for MREFC were \$220,740 and \$190,881, respectively.

Note 12. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," requires direct and reimbursable obligations be reported as Category A, Category B, or Exempt from Apportionment. In fiscal years 2008 and 2007, NSF's SF-132, "Apportionment and Reapportionment Schedule," apportions all obligations incurred under Category B which is by activity, project, or object. In fiscal years 2008 and 2007, direct obligations amounted to \$6,259,622 and \$6,063,147, respectively, and reimbursable obligations amounted to \$102,305 and \$106,044, respectively.

Note 13. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include fiscal year 2008 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of fiscal year 2009 and can be found on the OMB web site: <http://www.whitehouse.gov/omb>.

Balances reported in the fiscal year 2007 SBR and the related President's Budget are shown in a table below for Budgetary Resources, Obligations Incurred, Unobligated Balance - Unavailable, and any related differences. The differences reported are due to differing reporting requirements for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

(Amounts in Thousands)	2007		
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable
Combined Statement of Budgetary Resources	\$ 6,387,868	\$ 6,169,191	\$ 76,968
Budget of the U.S. Government	\$ 6,312,053	\$ 6,164,368	\$ 5,976
Difference	\$ 75,815	\$ 4,823	\$ 70,992

Note 14. Undelivered Orders at the end of the Period

In accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," the amount of budgetary resources obligated for undelivered orders for the periods ended September 30, 2008 and 2007, amounted to \$8,120,099 and \$7,870,354, respectively.

Note 15. Reconciliation of Net Cost of Operations to Budget

(Amounts in Thousands)	2008	2007
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 6,361,927	\$ 6,169,191
Less: Spending Authority from Offsetting Collections and Recoveries	(161,491)	(151,475)
Obligations Net of Offsetting Collections and Recoveries	6,200,436	6,017,716
Less: Offsetting Receipts	(1,038)	(1,535)
Net Obligations	6,199,398	6,016,181
Other Resources		
Imputed Financing	9,048	9,336
Other Resources	(166)	(1,375)
Net Other Resources Used to Finance Activities	8,882	7,961
Total Resources Used to Finance Activities	6,208,280	6,024,142
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(256,022)	(390,902)
Resources that Fund Expenses Recognized in Prior Periods	(144)	(280)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	1,038	1,535
Resources that Finance the Acquisition of Assets	(34,945)	(21,539)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(290,073)	(411,186)
Total Resources Used to Finance Net Cost of Operations	5,918,207	5,612,956
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Other	1,243	383
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	1,243	383
Components Not Requiring or Generating Resources		
Depreciation and Amortization	25,248	21,478
Other	109	1,312
Total Components of Net Cost of Operations that will not Require or Generate Resources	25,357	22,790
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	26,600	23,173
Net Cost of Operations	\$ 5,944,807	\$ 5,636,129

Required Supplementary Stewardship Information
Stewardship Investments
For the Years Ended September 30, 2008 and 2007

**Stewardship Investments
Research and Human Capital**

(Dollar Amounts in Thousands)

Research and Human Capital Activities

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Basic Research	4,449,062	4,195,444	3,682,266	3,564,093	3,494,302
Applied Research	409,516	432,820	339,757	291,169	209,225
Education and Training	911,369	808,642	1,378,472	1,386,952	1,224,058
Non-Investing Activities	283,245	275,993	321,085	292,426	268,298
Total Research & Human Capital Activities	<u>\$ 6,053,192</u>	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>

Inputs, Outputs and/or Outcomes

Research and Human Capital Activities

Investments In:

Universities	4,189,050	4,016,101	3,994,682	3,970,851	3,705,751
Industry	251,695	208,696	199,523	223,563	196,260
Federal Agencies	256,186	203,759	221,002	143,316	107,212
Small Business	224,793	220,602	218,334	193,199	200,995
Federally Funded R&D Centers	229,259	335,731	299,802	278,542	269,968
Non-Profit Organizations	444,236	421,775	428,648	418,209	374,838
Other	457,973	306,235	359,589	306,960	340,859
	<u>\$ 6,053,192</u>	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>

Support To:

Scientists	512,147	496,431	473,457	454,053	477,970
Postdoctoral Programs	164,519	163,896	158,528	162,132	175,680
Graduate Students	615,621	585,308	544,513	538,233	546,084
	<u>\$ 1,292,287</u>	<u>\$ 1,245,635</u>	<u>\$ 1,176,498</u>	<u>\$ 1,154,418</u>	<u>\$ 1,199,734</u>

Outputs & Outcomes:

Number of:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Awards Actions	23,000	23,000	22,000	22,000	23,000
Senior Researchers	43,000	41,000	32,000	32,000	31,000
Other Professionals	12,000	13,000	11,000	12,000	15,000
Postdoctoral Associates	6,000	6,000	5,000	6,000	6,000
Graduate Students	37,000	35,000	26,000	27,000	29,000
Undergraduate Students	24,000	23,000	27,000	33,000	35,000
K-12 Students	13,000	11,000	8,000	11,000	14,000
K-12 Teachers	62,000	61,000	59,000	74,000	86,000

NSF's mission is to support basic scientific research and research fundamental to the engineering process as well as science and engineering education programs. NSF's Stewardship Investments fall principally into the categories of Research and Human Capital. For expenses incurred under the Research category, the majority of NSF funding is devoted to basic research, with a relatively small share going to applied research. This funding supports both the conduct of research and the necessary supporting infrastructure, including state-of-the-art instrumentation, equipment, computing resources, and multi-user facilities such as digital libraries, observatories, and research vessels and aircraft. Basic and applied research expenses

are determined by prorating the program costs of NSF's strategic goals on Research Infrastructure and Discovery reported on the Statement of Net Cost. The proration uses the basic and applied research percentages of total estimated research and development obligations reported in the current year Budget Request to OMB. The actual numbers are not available until later in the following fiscal year. Education and Training costs equate to NSF's third strategic goal, Learning, and the costs related to Non-Investing activities reflect the fourth strategic goal, Stewardship.

The data provided for Scientists, Postdoctoral Associates, and Graduate Students are obtained from NSF's proposal system and is information reported by each Principal Investigator. The number of award actions is from NSF's Enterprise Information System (EIS). The remaining outputs and outcomes are estimates of the total fiscal year 2008 amounts obtained annually from the NSF Directorates.

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

Required Supplementary Information
Deferred Maintenance
For the Years Ended September 30, 2008 and 2007

Deferred Maintenance
(Dollar Amounts in Thousands)

NSF performs condition assessment surveys in accordance with FASAB Standards No. 6 and No. 14 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 the period for fiscal years 2008 and 2007. Assets deemed to be in excellent, good, or fair condition are considered to be in acceptable condition. Assets in poor condition are in unacceptable condition and the deferred maintenance required to get them to an acceptable condition are reported. NSF determines the condition of an asset in accordance with standards comparable to those used in the private industry. Due to the environment and remote location of Antarctica, all deferred maintenance on assets in poor condition is considered critical in order to maintain operational status.

At September 30, 2008, NSF determined that scheduled maintenance on 14 items of Antarctic capital equipment in poor condition was not completed and was deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$24. The items include light and heavy mobile and power distribution equipment. All items are considered critical to NSF operations and are estimated to require \$98 in maintenance.

At September 30, 2007, NSF determined that scheduled maintenance on 17 items of Antarctic capital equipment in poor condition were not completed and were deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$34. The items include light and heavy mobile equipment, all of which is considered critical to NSF operations and estimated to require \$106 in maintenance.

Required Supplementary Information
Budgetary Resources by Major Budget Accounts

In the following table, NSF budgetary information for the fiscal years ended September 30, 2008 and 2007, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts.

Combining Statement of Budgetary Resources (page 1 of 2)

2008

(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, S&E, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 70,495	18,937	27,600	6,897	94,748	\$ 218,677
Recoveries of Prior Year Obligations	37,741	13,375	214	3,571	4,267	59,168
Budget Authority						
Appropriation	4,843,974	765,600	220,740	297,186	166,434	6,293,934
Spending Authority from Offsetting Collections						
Earned						
Collected	107,856	8,102	-	5,274	2	121,234
Change in Receivable from Federal Sources	(12,568)	448	-	(514)	-	(12,634)
Change in Unfilled Customer Orders						
Advance Received	20,017	5,176	-	50	-	25,243
Without Advance from Federal Sources	(27,024)	(4,528)	-	32	-	(31,520)
Subtotal - Budget Authority	<u>4,932,255</u>	<u>774,798</u>	<u>220,740</u>	<u>302,028</u>	<u>166,436</u>	<u>6,396,257</u>
Nonexpenditure Transfers, Net -						
Anticipated and Actual	(2,240)	-	-	-	-	(2,240)
Permanantly Not Available	(36,665)	(11,578)	(15,275)	(2,847)	-	(66,365)
Total Budgetary Resources	<u>\$ 5,001,586</u>	<u>795,532</u>	<u>233,279</u>	<u>309,649</u>	<u>265,451</u>	<u>\$ 6,605,497</u>
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 4,856,135	767,446	166,846	298,600	170,595	\$ 6,259,622
Reimbursable	88,367	9,231	-	4,707	-	102,305
Total Obligations Incurred	<u>4,944,502</u>	<u>776,677</u>	<u>166,846</u>	<u>303,307</u>	<u>170,595</u>	<u>6,361,927</u>
Unobligated Balance - Apportioned	133	6	66,398	398	90,991	157,926
Unobligated Balance - Not Available	56,951	18,849	35	5,944	3,865	85,644
Total Status Of Budgetary Resources	<u>\$ 5,001,586</u>	<u>795,532</u>	<u>233,279</u>	<u>309,649</u>	<u>265,451</u>	<u>\$ 6,605,497</u>

Combining Statement of Budgetary Resources (page 2 of 2)

2008

(Amounts in Thousands)

Change in Obligated Balances

Obligated Balance, Net							
Unpaid Obligations - Brought forward,							
October 1	6,204,685	1,398,516	222,241	56,757	298,196	8,180,395	
Less: Uncollected Customer Payments from							
Federal Sources Brought Forward, October 1	(62,564)	(9,346)	-	(752)	-	(72,662)	
Total Unpaid Obligated Balance, Net	<u>6,142,121</u>	<u>1,389,170</u>	<u>222,241</u>	<u>56,005</u>	<u>298,196</u>	<u>8,107,733</u>	
Obligations Incurred	4,944,505	776,677	166,845	303,305	170,595	6,361,927	
Less: Gross Outlays	(4,553,367)	(839,378)	(212,169)	(280,769)	(109,451)	(5,995,134)	
Less: Recoveries of Prior Year Unpaid							
Obligations, Actual	(37,741)	(13,375)	(214)	(3,571)	(4,267)	(59,168)	
Change in Uncollected Customer Payments							
from Federal Sources	39,592	4,080	-	482	-	44,154	
Subtotal	<u>\$ 6,535,110</u>	<u>1,317,174</u>	<u>176,703</u>	<u>75,452</u>	<u>355,073</u>	<u>\$ 8,459,512</u>	
Obligated Balance, Net - End of Period							
Unpaid Obligations	6,558,083	1,322,440	176,703	75,722	355,073	8,488,021	
Less: Uncollected Customer							
Payments from Federal Sources	(22,973)	(5,266)	-	(270)	-	(28,509)	
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 6,535,110</u>	<u>1,317,174</u>	<u>176,703</u>	<u>75,452</u>	<u>355,073</u>	<u>\$ 8,459,512</u>	
Net Outlays							
Gross Outlays	4,553,367	839,378	212,169	280,769	109,451	5,995,134	
Less: Offsetting Collections	(127,873)	(13,278)	-	(5,323)	(2)	(146,476)	
Less: Distributed Offsetting Receipts	-	-	-	-	(1,038)	(1,038)	
Net Outlays	<u>\$ 4,425,494</u>	<u>826,100</u>	<u>212,169</u>	<u>275,446</u>	<u>108,411</u>	<u>\$ 5,847,620</u>	

Combining Statement of Budgetary Resources (page 1 of 2)

2007

(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, S&E, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 49,770	27,293	2,777	7,417	116,287	\$ 203,544
Recoveries of Prior Year Obligations	28,137	8,972	152	3,439	3,774	44,474
Budget Authority						
Appropriation	4,665,950	796,693	190,881	263,641	148,640	6,065,805
Spending Authority from Offsetting Collections:						
Earned						
Collected	78,821	7,814	-	4,206	3	90,844
Change in Receivable from Federal Sources	(13,583)	160	-	451	-	(12,972)
Change in Unfilled Customer Orders						
Advance Received	67,123	3,265	-	37	-	70,425
Without Advance from Federal Sources	(38,709)	(2,634)	-	47	-	(41,296)
Subtotal - Budget Authority	<u>4,759,602</u>	<u>805,298</u>	<u>190,881</u>	<u>268,382</u>	<u>148,643</u>	<u>6,172,806</u>
Nonexpenditure Transfers, Net -						
Anticipated and Actual	5,460	-	-	250	-	5,710
Permanently Not Available	(20,867)	(16,043)	-	(1,756)	-	(38,666)
Total Budgetary Resources	\$ <u>4,822,102</u>	<u>825,520</u>	<u>193,810</u>	<u>277,732</u>	<u>268,704</u>	\$ <u>6,387,868</u>
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 4,658,673	798,151	166,210	266,157	173,956	\$ 6,063,147
Reimbursable	92,934	8,432	-	4,678	-	106,044
Total Obligations Incurred	<u>4,751,607</u>	<u>806,583</u>	<u>166,210</u>	<u>270,835</u>	<u>173,956</u>	<u>6,169,191</u>
Unobligated Balance - Apportioned	22,194	99	27,573	1,029	90,814	141,709
Unobligated Balance - Not Available	48,301	18,838	27	5,868	3,934	76,968
Total Status of Budgetary Resources	\$ <u>4,822,102</u>	<u>825,520</u>	<u>193,810</u>	<u>277,732</u>	<u>268,704</u>	\$ <u>6,387,868</u>

Combining Statement of Budgetary Resources (page 2 of 2)

2007

(Amounts in Thousands)

Change in Obligated Balances

Obligated Balance, Net							
Unpaid Obligations - Brought forward,							
October 1	5,768,192	1,469,459	264,130	56,422	189,138	7,747,341	
Less: Uncollected Customer Payments from							
Federal Sources Brought Forward, October 1	(114,854)	(11,820)	-	(256)	-	(126,930)	
Total Unpaid Obligated Balance, Net	<u>5,653,338</u>	<u>1,457,639</u>	<u>264,130</u>	<u>56,166</u>	<u>189,138</u>	<u>7,620,411</u>	
Obligations Incurred	4,751,607	806,583	166,210	270,835	173,956	6,169,191	
Less: Gross Outlays	(4,286,976)	(868,554)	(207,947)	(267,061)	(61,124)	(5,691,662)	
Less: Recoveries of Prior Year Unpaid							
Obligations, Actual	(28,137)	(8,972)	(152)	(3,439)	(3,774)	(44,474)	
Change in Uncollected Customer Payments							
from Federal Sources	52,289	2,474	-	(496)	-	54,267	
Subtotal	<u>\$ 6,142,121</u>	<u>1,389,170</u>	<u>222,241</u>	<u>56,005</u>	<u>298,196</u>	<u>\$ 8,107,733</u>	
Obligated Balance, Net - End of Period							
Unpaid Obligations	6,204,685	1,398,516	222,241	56,757	298,196	8,180,395	
Less: Uncollected Customer							
Payments from Federal Sources	(62,564)	(9,346)	-	(752)	-	(72,662)	
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 6,142,121</u>	<u>1,389,170</u>	<u>222,241</u>	<u>56,005</u>	<u>298,196</u>	<u>\$ 8,107,733</u>	
Net Outlays							
Gross Outlays	4,286,976	868,554	207,947	267,061	61,124	5,691,662	
Less: Offsetting Collections	(145,943)	(11,079)	-	(4,244)	(3)	(161,269)	
Less: Distributed Offsetting Receipts	-	-	-	-	(1,535)	(1,535)	
Net Outlays	<u>\$ 4,141,033</u>	<u>857,475</u>	<u>207,947</u>	<u>262,817</u>	<u>59,586</u>	<u>\$ 5,528,858</u>	

OTHER FINANCIAL REPORTING INFORMATION

Debt Collection Improvement Act of 1996

Net Accounts Receivable totaled \$12,319 thousand at September 30, 2008. Of that amount, \$11,928 thousand is due from other federal agencies. The remaining \$391 thousand is due from the public. NSF fully participates in the Department of the Treasury Cross-Servicing Program. In accordance with the Debt Collection Improvement Act, this program allows NSF to refer debts that are delinquent more than 180 days to the Department of the Treasury for appropriate action to collect those accounts. In FY 2004, OMB issued M-04-10, Memorandum on Debt Collection Improvement Act Requirements which reminded agencies of their responsibility to comply with the policies for writing-off and closing-out debt. Based on this memo, NSF has now incorporated the policy of writing-off delinquent debt more than two years old. Additionally, NSF seeks Department of Justice concurrence for action on items over \$100,000.

Cash Management Improvement Act (CMIA)

In FY 2008, NSF had no awards covered under CMIA Treasury-State Agreements. NSF's FastLane system with grantee draws of cash make the timeliness of payments issue under the Act essentially not applicable to the agency. No interest payments were made in FY 2008.