



## Chapter 2

# Financials



## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



Credit: Sandy Schaeffer

I am pleased to report that for fiscal year (FY) 2012 the National Science Foundation (NSF) received its 15th consecutive unqualified audit opinion, affirming that NSF's financial statements for the year ended September 30, 2012, were presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. The audit report includes no material weaknesses. However, it repeats the prior year significant deficiency on the monitoring of construction type cooperative agreements. We concur with the overall need to strengthen our controls in this area but disagree with key aspects of the significant deficiency. We will continue to work collaboratively with the Office of Inspector General and its auditors to understand and resolve this complex issue.

As the federal sector including NSF continues to operate in an environment of fiscal austerity, an underlying agency-wide goal has been to manage programs and resources more efficiently and effectively to reduce administrative costs, in accordance with Executive Order 13589, *Promoting Efficient Spending*, and Office of Management and Budget (OMB) guidance. The financial management leadership also remains focused on providing timely and useful information to enable managers to make better resource allocation decisions. Notable efforts undertaken during the year include the following:

- **Reduce operating costs:** Across the board, NSF made significant progress towards reducing certain administrative costs by identifying and implementing efficiencies, prioritizing work, eliminating or scaling back the scope of some activities, and exploring new ways of getting the job done. Agency-wide travel targets to improve oversight and prioritization of travel funding were implemented, resulting in a \$2.33 million (9 percent) reduction of FY 2012 travel (obligations) from FY 2010 levels. New reports facilitated the monitoring of travel costs and new procedures were put in place to expedite timely close-out of outstanding travel obligations. Enhanced monitoring of spending on light refreshments at panel and advisory committee meetings ensured costs remain below the guidance limit. A policy is being finalized to guide the purchase, distribution, and use of wireless technologies as a means to hold down mobile communications costs. A cost-benefit study of printing procurement and management services across the agency identified measures to reduce costs. The termination of two management support services contracts resulted in reduced spending.
- **Increase efficiency and transparency:** In September 2012, a system implementation contract was awarded to Accenture Federal Services, LLC, for NSF's future financial management and reporting solution (iTRAK). The new system, which replaces NSF's 25-year old Financial Accounting System, will increase the agency's capabilities for more informed operational and programmatic decision-making, improve the effectiveness and efficiency of financial and

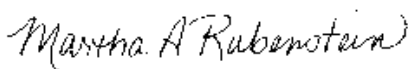
business processes, and enhance financial and business accountability, integrity, and compliance. iTRAK is slated to go live October 2014. In FY 2012, NSF also began development of an Award Cash Management Service (ACM\$) that will transition NSF awardees from the pooling process for grant payments to an award level process at the time of payment request. ACM\$ will improve the timeliness of award financial information and enable the establishment of tighter cash management controls.

- **Maintain low improper payments:** NSF has been a leader and active participant in OMB's new Do Not Pay (DNP) initiative to reduce improper payments. The agency's goal is to incorporate the DNP solution fully into its pre-award review process for all grants and cooperative agreements. NSF was one of the first agencies to be in compliance with on-line access to the new mandated system. The DNP solution complements NSF's existing policies and procedures for award management; the agency has already begun automating and centralizing the pre-award verification. NSF will realize efficiency gains through reduced workload from discontinued manual verifications of awardee eligibility.

NSF has a robust risk-based grant monitoring program that samples for improper payments. Due to NSF's historical demonstration of very low improper payment rates, OMB has allowed the agency to report on a 3-year cycle for the Improper Payments Elimination and Recovery Act (IPERA). With FY 2012 a reporting year in the cycle, NSF conducted a statistical review of its Federal Financial Report expenditure transactions received from grant recipients. Consistent with prior year findings, NSF's improper payment rates remain low and well below the OMB thresholds.

- **Effective internal controls:** In compliance with OMB Circular A-123, we conducted our annual assessment of the effectiveness of internal controls over financial reporting. Based on the results of these evaluations, NSF is able to provide reasonable assurance that as of September 30, 2012, internal control over financial reporting was operating effectively and no material weaknesses were identified in the design or operation of internal control.

A more detailed discussion of these activities and others (such as grants and contracts administration and stewardship of NSF's Recovery Act programs) appear elsewhere in this report. Sound financial management and effective operations is essential to carrying out and achieving NSF's mission and the agency's critical investments in science and engineering research and education that help ensure our nation's security and economic future. As always, I welcome your feedback on how we can make this report more informative to our stakeholders and readers.



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

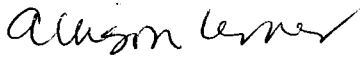
November 15, 2012



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

TO: Dr. Subra Suresh  
Director, National Science Foundation

Dr. Dan E. Arvizu  
Chair, National Science Board

FROM: Allison Lerner   
Inspector General, National Science Foundation

DATE: November 9, 2012

SUBJECT: Audit of the National Science Foundation's  
Fiscal Years 2012 and 2011 Financial Statements

This memorandum transmits CliftonLarsonAllen LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2012 and 2011.

**Results of Independent Audit**

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), CliftonLarsonAllen LLP, an independent public accounting firm, performed an audit of NSF's Fiscal Years 2012 and 2011 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 (OMB).

CliftonLarsonAllen LLP issued an unqualified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, CliftonLarsonAllen LLP reported a significant deficiency related to NSF's monitoring of construction type cooperative agreements that was initially identified in 2011 and did not report any material weaknesses in internal control. CliftonLarsonAllen LLP also reported that there were no reportable instances in which NSF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Finally, CliftonLarsonAllen LLP found no reportable instances of noncompliance with laws and regulations it tested.

NSF management's response, dated November 9, 2012, follows CliftonLarsonAllen LLP's report.

### **Evaluation of CliftonLarsonAllen 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 CliftonLarsonAllen 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 CliftonLarsonAllen LLP's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04, as amended; and
- Coordinated issuance of the audit report.

CliftonLarsonAllen LLP is responsible for the attached auditor's report dated November 9, 2012, and the conclusions expressed in the report. We do not express any opinion on NSF's financial statements or conclusions on the effectiveness of internal control, on compliance with laws and regulations, or on whether NSF's financial management systems substantially complied with FFMIA.

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

Attachment

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



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the National Science Foundation (NSF) as of September 30, 2012 and 2011, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources ("financial statements") for the years then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered NSF's compliance with laws and regulations. In our audit, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, although internal control could be improved;
- Some progress has been made in fiscal year (FY) 2012 on the significant deficiency condition noted in the FY 2011 auditor's report; however, most of the conditions detailed in that report continue to exist and, along with others, is reported herein as a significant deficiency; and
- No instances of reportable noncompliance with selected provisions of laws and regulations tested, including the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections and Exhibits discuss in more detail: (1) these conclusions; (2) the current status of prior year findings and recommendations (3) our conclusions on Management's Discussion and Analysis (MD&A), required supplementary information, and other information; (4) management's responsibility for the financial statements; (5) our responsibility for the audit; and (6) NSF's response to the audit results and our evaluation of such response.

### **Opinion on Financial Statements**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NSF as of September 30, 2012 and 2011 and its net costs; changes in net position; and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the U.S.

### **Report on Internal Control**

In planning and performing our audit, we considered NSF's internal control over financial reporting and compliance (internal control) 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 NSF's internal control. Accordingly, we do not express an opinion on the effectiveness of NSF's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Entity's financial statements will not be prevented, or detected and corrected on a timely basis.

## INDEPENDENT AUDITOR'S REPORT (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified one deficiency in internal control described in **Exhibit I** that we consider to be a significant deficiency. A *significant deficiency* is a control deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We also noted certain other matters involving internal control that we will communicate in a separate letter to NSF management.

### **Report on Compliance**

In connection with our audit, we performed tests of NSF's compliance with certain provisions of laws and regulations. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements*, as amended (OMB Bulletin 07-04). However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the financial management systems used by NSF substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on NSF's 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 (1) Federal financial management systems requirements, (2) Federal accounting standards, or (3) the USSGL at the transaction level.

### **Status of Prior Year's Control Deficiency and Noncompliance Issues**

We have reviewed the status of NSF's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 11, 2011. The status of prior year findings and recommendations is presented in **Exhibit II**.

### **Other Information**

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

All other information, exclusive of the financial statements and related notes, MD&A and other required supplementary information, listed in the table of contents of NSF's Agency Financial Report is presented

## INDEPENDENT AUDITOR'S REPORT (Continued)

for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Management's Responsibility for the Financial Statements**

NSF management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the U.S., (2) designing, implementing, and maintaining 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.

### **Auditor's Responsibility**

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. 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 FFMIA requirements referred to above, (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 Bulletin 07-04 requires testing, and (4) performing limited procedures with respect to certain other information appearing in NSF's 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 appropriateness of the accounting policies used and the reasonableness of 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) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance; (7) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; (8) tested whether NSF's financial management systems substantially complied with the FFMIA requirements referred to above; and (9) tested compliance with selected provisions of certain laws and regulations. The procedures selected depend on the auditors' judgment, including our assessment of risks of material misstatement of the financial statements. We believe we obtained sufficient and appropriate audit evidence on which to base our conclusions.

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 audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to NSF. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 07-04 that we deemed applicable to NSF's



## INDEPENDENT AUDITOR'S REPORT (Continued)

financial statements for the fiscal year ended September 30, 2012. 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.

### Agency Comments and Our Evaluation

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

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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 U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Calverton, Maryland  
November 9, 2012

## INDEPENDENT AUDITOR'S REPORT (Continued)

### EXHIBIT I

#### NATIONAL SCIENCE FOUNDATION REPORT ON INTERNAL CONTROL SIGNIFICANT DEFICIENCY September 30, 2012

##### Monitoring of Construction Type Cooperative Agreements

###### **Background and Control Deficiency Criteria:**

As of September 30, 2012, NSF had 15 active cooperative agreements totaling about \$1.7 billion that included approximately about \$294 million in contingency funds, representing 17 percent of the total award amount.

In our fiscal year (FY) 2011 Audit Report, we noted that Defense Contract Audit Agency (DCAA) issued audit reports and inadequacy memoranda (DCAA communications) on behalf of the NSF Office of Inspector General (OIG) that questioned the allowability of approximately \$226 million in contingency costs included in proposal budgets related to construction type cooperative agreements. DCAA specifically indicated that the contingency costs were unallowable for the following reasons – Budgeted proposal costs:

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

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

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

In tests performed during our FY 2011 audit, we also noted deficiencies in NSF's monitoring of contingency funds and that the awardees had unrestricted access to the contingency funds during the year.

Even though NSF has been working with the NSF OIG & DCAA throughout FY 2012 regarding the concerns raised in these DCAA communications, the majority of these matters remain unresolved, but are still under discussion with the OIG, at September 30, 2012.

###### **Conditions:**

The following paragraphs describe the specific conditions that existed during FY 2012.

##### **1. DCAA Audits of Cooperative Agreements with Contingency Funds**

In FY 2011, NSF disagreed with many of the findings in the DCAA communications, and DCAA agreed to conduct further work on three proposal audits previously conducted, met with NSF management to discuss their concerns, and review additional information provided by the awardees. As a result of these efforts, DCAA issued reports in FY 2012 which continued to question the allowability of the proposed contingency costs, noting in each case that the awardee's basis for the contingency costs was inadequate.

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

The significant findings from the DCAA's audit reports and memoranda issued in FY 2012 continued to be reported as follows:

- Contingency costs of approximately \$226 million reflected in the cost proposals for three awardees were noted as unallowable under federal cost principles,
- Lack of adequate documentation for proposed cost amounts for certain awardees,
- Awardees can draw down contingency funds without advance approval by NSF, and
- Deficiencies in one awardee's accounting system and estimating practices.

DCAA also noted in one of its proposal audits that the inadequacies were so significant that the five year \$434 million proposal was not considered acceptable for negotiation of a fair and reasonable price\award. DCAA indicated that the price and/or cost analysis provided by the awardee for all costs was insufficient due to (a) reliance on historical data that was not current; (b) lack of adequate documentation of the analyses in general; and (c) less than sufficient competition by offerors. DCAA is still in the process of reviewing and assessing additional information provided by another awardee for a proposal that was previously determined to be unacceptable for audit.

Pursuant to OMB Circular A-50, *Audit Follow Up*, NSF management has six months to submit an Audit Resolution Memo (ARM) in response to the remaining DCAA reports. As of September 30, 2012, NSF management has issued an ARM for two of the DCAA audit reports providing the basis for its disagreement with the OIG and DCAA position. The OIG is evaluating the Memos and/or working with NSF to finalize an action plan to resolve these matters.

### **2. OIG Audit Report**

The NSF OIG also issued a report dated September 28, 2012 (Report No. 12-2-010) on its *Audit of NSF's Management of Contingency in the Earthscope Awards* which examined cooperative agreements that have been closed. The primary findings of the OIG report were:

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

Pursuant to OMB Circular A-50, *Audit Follow Up*, NSF management has six months to submit an Audit Resolution Memo in response to this report.

### **3. OIG Alert Memo**

The OIG also issued an OIG Alert Memo dated September 28, 2012 (Report No. 12-6-001), *NSF's Management of Cooperative Agreements*. The Alert Memo, based in part on the findings from the previous DCAA audits and the separate OIG audit described above, reiterated concerns about the adequacy of NSF's review of proposed costs, the proposer's financial management capabilities, and NSF's post-award monitoring. The main points of the OIG Memo were as follows:

- a) NSF does not require a proposal audit for high-risk, high-dollar cooperative agreements prior to award to ensure that awardee's cost estimates are adequate to form an acceptable basis for the negotiation of a fair and reasonable price.
- b) NSF does not require audits of the accounting systems of awardees that will be managing large cooperative agreements, prior to making awards to ensure that they are adequate to bill the government.

## INDEPENDENT AUDITOR'S REPORT (Continued)

- c) NSF does not require the use of OMB's SF 424C Form (Budget Information - Construction Programs), for submitting proposals, which identifies allowable and unallowable costs as well as amounts for contingencies. This puts NSF at risk of unknowingly funding unallowable costs, especially when an awardee does not have a cooperative agreement officer determination that the awardee has an adequate accounting system.
- d) Large cooperative agreement awardees are not required to provide NSF with annual incurred cost submissions, unless NSF is the cognizant agency for a contract with NSF, nor does NSF routinely have those submissions audited to ensure that the costs claimed are allowable. Absent incurred cost submissions and audits, NSF cannot adequately monitor awardees' expenditure of government funds during the post-award stage, compounding our concern that unallowable costs could be charged to awards and go undetected.

NSF management has not yet provided a formal written response to the Alert Memo.

#### **4. Internal Controls for Monitoring Use of Contingency Funds**

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

- a) Awardees can draw down on the contingency funds budget without prior NSF approval. Accordingly, there are no systematic barriers to prevent them from doing so to reduce the risk of such funds being used for unallowable purposes.
- b) For certain cooperative agreements examined, we noted the following:
  - The awardee did not report the allocation of the contingency budget authority to specific project Work Breakdown Structure (WBS) elements on a monthly basis as required by NSF. This lack of information on how the contingency funds are being spent limits NSF management's ability to assess how and when the contingency funds are being used; and
  - NSF was unable to provide evidence to show that it had approved the awardee's process for managing contingency expenditures. A requirement to document NSF's approval of the awardee's process for managing contingency expenditures and requests above the stipulated threshold would reduce the risk of funds being disbursed for costs that are unreasonable, unallowable or unallocable.

In summary, the DCAA communications, NSF OIG audit report and Alert Memo, and the results of our internal control testing in FY 2012 continue to indicate significant risks related to NSF's administration of cooperative agreements with budgeted contingency funds in terms of the validity of cost proposals, the allowability of contingency funds budgeted, and the adequacy of NSF's controls over monitoring cooperative agreements that include contingency fund provisions.

#### **Recommendations:**

We recommend that NSF focus its efforts in the following areas:

1. OMB recently proposed new rules in the Federal Register (Vol. 77, No. 39, 11778) to reform Federal policies relating to grants and cooperative agreements regarding the cost principles, including those relating to contingency costs. NSF should closely monitor the finalization of these new regulations and evaluate the impact that such new policies have on these conditions from a prospective basis and revise its operating procedures as necessary.
2. Prior to the finalization of OMB's proposed new rules, NSF should reemphasize to its Cooperative Agreement awardees that proposal cost data must be prepared and maintained in accordance with contingency cost definitions provided for in Title 2 Code of Federal Regulations. All cost proposal data should be in a format that both reconciles to the underlying source data and is auditable. Failure to do so should result in suspension of draw down privileges.

## INDEPENDENT AUDITOR'S REPORT (Continued)

3. NSF should develop a corrective plan to address DCAA's final audit findings. Such plan should include revisions to its proposal review process to ensure that the issues raised by DCAA in its reports are considered by NSF in the future before accepting an entity's cost proposal as a basis for the issuance of an award/cooperative agreement.
4. NSF should strengthen controls over all cooperative agreement disbursements, especially with respect to the oversight of draws on contingency funds.
5. NSF should ensure that the control requiring the awardees to submit monthly reports showing the allocation of the contingency budget authority to the second level of detail within the project's Work Breakdown Structure has been implemented and is operating effectively.
6. NSF should develop and implement a formal policy for documenting NSF's approval of the awardee's process for managing contingency expenditures and requests above the stipulated threshold.
7. NSF should develop an Action Plan to address the recommendations noted by the OIG in its:
  - a) Report No. 12-2-010 - *Audit of NSF's Management of Contingency in the Earthscope Awards*.
  - b) Alert Memo (Report No. 12-6-001), *NSF's Management of Cooperative Agreements*.

**INDEPENDENT AUDITOR'S REPORT (Continued)**

**EXHIBIT II**

**NATIONAL SCIENCE FOUNDATION  
INDEPENDENT AUDITOR'S REPORT  
STATUS OF PRIOR YEAR CONTROL DEFICIENCY  
September 30, 2012**

<b>Prior Year Control Deficiency</b>	<b>Status As Reported at September 30, 2011</b>	<b>Status as of September 30, 2012</b>
1. Monitoring of Construction Type Cooperative Agreements	<p>Four audit reports and memoranda issued by DCAA in prior years disclosed a number of control deficiencies relating to NSF's Cooperative Agreement award and monitoring process. The most significant findings in those reports were as follows:</p> <ul style="list-style-type: none"><li>• A lack of adequate documentation for proposal cost amounts under audit for certain NSF's awardees,</li><li>• Contingency costs reflected in proposals were noted as unallowable under federal cost principles, and</li><li>• Cooperative Agreement awardees could draw down contingency funds included therein without advance approval by NSF.</li></ul>	<p>Even though some improvements have been made in this area during FY 2012, the DCAA report conclusions have been reconfirmed in FY 2012, and additional work performed by the OIG continues to indicate significant control deficiencies relating to the use of contingency funds in Cooperative Agreements. Accordingly, this matter has been repeated as a Significant Deficiency in the FY 2012 Audit Report.</p>



**INDEPENDENT AUDITOR'S REPORT (Continued)**

**EXHIBIT III**

**NATIONAL SCIENCE FOUNDATION  
MANAGEMENT'S RESPONSE TO FY 2012  
INDEPENDENT AUDITOR'S REPORT  
November 9, 2012**

## INDEPENDENT AUDITOR'S REPORT (Continued)



OFFICE OF BUDGET, FINANCE & AWARD MANAGEMENT

### MEMORANDUM

NOV 9 2012

Date:

To: Allison Lerner, Inspector General

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

Subject: Management's Response to Independent Auditor's Report for  
Fiscal Year 2012

I am pleased to see that the National Science Foundation (NSF) is receiving its 15<sup>th</sup> consecutive "clean" opinion on our financial statements and attribute our continued success to the dedicated efforts of staff throughout the Foundation. Additionally, I appreciate the cooperation that we received from your staff and CliftonLarsonAllen LLP throughout this audit process.

We concur with the overall need to strengthen our controls for awarding and managing construction type cooperative agreements. And, while we disagree with key aspects of the significant deficiency, we will continue to work with the Office of Inspector General (OIG) and its auditors to reach agreement and resolve the audit findings. In the meantime, the following paragraphs describe the improvements we are making to controls for monitoring cooperatives agreements.

NSF has comprehensive controls to manage contingency estimates and their allocation to allowable budget categories during both the pre-award and post-award processes. The pre-award processes range from multiple reviews and risk planning to the use of technical experts that assess project risk. We also make certain that our policies and procedures are consistent with widely accepted industry and federal project management principles. During the post-award process, NSF has controls to approve contingency activity based on established thresholds.

This year we increased our collaboration with the OIG to understand and resolve findings related to our management of cooperative agreements. We established standing meetings to analyze and discuss key audit findings and to improve communications. Although not fully reflected in the audit report findings, we have also demonstrated our continued commitment to our shared goal of stewardship through our timely review of all draft reports, OIG Alert Memo, and support on additional review of

## INDEPENDENT AUDITOR'S REPORT (Continued)

audits mentioned in the financial statement audit report. As a result, we were able to clarify the areas where we need to focus our resolution efforts. In addition, as suggested in the financial statements audit report, NSF is closely monitoring the Office of Management and Budget's proposed new rules to reform Federal policies for grants and cooperative agreements related to cost principles, including those pertaining to contingency estimates. Concerning awardee drawdown of funds, we are in the process of enhancing controls for cash management through a new Award Cash Management Service. These controls will limit drawdown of funding increments.

Moving forward, we are committed to improving our procedures associated with both pre-award and post-award cost reviews. This includes enhancing our internal analysis of proposal budgets, use of outside cost analysis and audit support when necessary, and incorporating incurred cost audits, when advisable, as a means to verify costs to the Government.

We look forward to continued collaboration with the OIG to improve our stewardship of taxpayer funds. If you have any questions concerning our responses, please contact me at (703) 292-8200 or Shirl Ruffin, Deputy Chief Financial Officer at (703) 292-8280.

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



## **National Science Foundation**

### **PRINCIPAL FINANCIAL STATEMENTS**

As of and for the Years Ended  
September 30, 2012 and 2011

**National Science Foundation**  
**Balance Sheet**  
**As of September 30, 2012 and 2011**  
**(Amounts in Thousands)**

<b>Assets</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 12,047,148	\$ 12,175,088
Accounts Receivable	6,479	10,726
Advances	16,307	69,228
Total Intragovernmental Assets	<u>12,069,934</u>	<u>12,255,042</u>
Cash and Other Monetary Assets (Note 2)	40,245	51,380
Accounts Receivable, Net	184	186
Advances	1,379	-
General Property, Plant and Equipment, Net (Notes 3 and 4)	276,900	278,126
<b>Total Assets</b>	<b>\$ <u>12,388,642</u></b>	<b>\$ <u>12,584,734</u></b>
<b>Liabilities</b>		
Intragovernmental Liabilities		
Advances From Others	\$ 7,552	\$ 20,773
Employer Contributions	706	550
FECA Employee Benefits	367	345
Other Intragovernmental Liabilities	-	984
Total Intragovernmental Liabilities	<u>8,625</u>	<u>22,652</u>
Accounts Payable	61,993	54,016
FECA Employee Benefits	1,366	1,272
Accrued Liabilities - Grants	445,563	437,269
Accrued Liabilities - Contracts and Payroll	8,081	48,645
Accrued Annual Leave	17,846	17,269
<b>Total Liabilities</b>	<b>\$ <u>543,474</u></b>	<b>\$ <u>581,123</u></b>
<b>Net Position</b>		
Unexpended Appropriations - Other Funds	\$ 11,158,221	\$ 11,330,889
Cumulative Results of Operations - Earmarked Funds (Note 5)	344,204	324,083
Cumulative Results of Operations - Other Funds	342,743	348,639
<b>Total Net Position</b>	<u>11,845,168</u>	<u>12,003,611</u>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>12,388,642</u></b>	<b>\$ <u>12,584,734</u></b>

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

**National Science Foundation**  
**Statement of Net Cost**  
**For the Years Ended September 30, 2012 and 2011**  
**(Amounts in Thousands)**

<b>Program Costs</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Research and Related Activities		
Gross Costs	\$ 6,134,541	\$ 6,004,357
Less: Earned Revenues	<u>(107,478)</u>	<u>(110,458)</u>
<b>Net Research and Related Activities</b>	<b><u>6,027,063</u></b>	<b><u>5,893,899</u></b>
Education and Human Resources		
Gross Costs	\$ 877,922	\$ 836,755
Less: Earned Revenues	<u>(5,692)</u>	<u>(8,350)</u>
<b>Net Education and Human Resources</b>	<b><u>872,230</u></b>	<b><u>828,405</u></b>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 270,468	\$ 261,705
Less: Earned Revenues	<u>-</u>	<u>-</u>
<b>Net Major Research Equipment and Facilities Construction</b>	<b><u>270,468</u></b>	<b><u>261,705</u></b>
Costs Not Assigned to Other Programs		
Gross Costs	\$ 165,896	\$ 155,985
Less: Earned Revenues	<u>-</u>	<u>-</u>
<b>Net Costs Not Assigned to Other Programs</b>	<b><u>165,896</u></b>	<b><u>155,985</u></b>
<b>Net Cost of Operations (Notes 6 and 13)</b>	<b><u>\$ 7,335,657</u></b>	<b><u>\$ 7,139,994</u></b>

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



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

	<u>2012</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
<b>Cumulative Results of Operations</b>			
<b>Beginning Balances (Note 5)</b>	\$ 324,083	348,639	672,722
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	7,162,409	7,162,409
Non-exchange Revenue	-	96	96
Donations	-	47,140	47,140
Appropriated Earmarked Receipts Transferred In (Note 5)	128,986	-	128,986
<b>Other Financing Sources</b>			
Imputed Financing From Costs Absorbed By Others	-	11,364	11,364
Other	-	(113)	(113)
<b>Total Financing Sources</b>	<b>128,986</b>	<b>7,220,896</b>	<b>7,349,882</b>
<b>Net Cost of Operations (Notes 5 and 6)</b>	<b>(108,865)</b>	<b>(7,226,792)</b>	<b>(7,335,657)</b>
<b>Cumulative Results of Operations (Note 5)</b>	<b>\$ 344,204</b>	<b>342,743</b>	<b>686,947</b>
<b>Unexpended Appropriations</b>			
<b>Beginning Balances</b>	\$ -	<b>11,330,889</b>	<b>11,330,889</b>
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	7,033,095	7,033,095
Appropriations Transferred In / (Out)	-	-	-
Other Adjustments	-	(43,354)	(43,354)
Appropriations Used	-	(7,162,409)	(7,162,409)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>(172,668)</b>	<b>(172,668)</b>
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,158,221</b>	<b>11,158,221</b>
<b>Net Position</b>	<b>\$ 344,204</b>	<b>11,500,964</b>	<b>11,845,168</b>

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

**National Science Foundation**  
**Statement of Changes in Net Position**  
**For the Year Ended September 30, 2011**  
**(Amounts in Thousands)**

	<u>2011</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
<b>Cumulative Results of Operations</b>			
<b>Beginning Balances (Note 5)</b>	\$ 335,454	324,725	660,179
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	6,982,432	6,982,432
Non-exchange Revenue	-	118	118
Donations	-	53,036	53,036
Appropriated Earmarked Receipts Transferred In (Note 5)	104,780	-	104,780
<b>Other Financing Sources</b>			
Imputed Financing From Costs Absorbed By Others	-	12,475	12,475
Other	-	(304)	(304)
<b>Total Financing Sources</b>	<b>104,780</b>	<b>7,047,757</b>	<b>7,152,537</b>
<b>Net Cost of Operations (Notes 5 and 6)</b>	<b>(116,151)</b>	<b>(7,023,843)</b>	<b>(7,139,994)</b>
<b>Cumulative Results of Operations (Note 5)</b>	<b>\$ 324,083</b>	<b>348,639</b>	<b>672,722</b>
 <b>Unexpended Appropriations</b>			
<b>Beginning Balances</b>	\$ -	11,548,234	11,548,234
<b>Budgetary Financing Sources</b>			
Appropriations Received	-	6,873,615	6,873,615
Appropriations Transferred In / (Out)	-	(53,892)	(53,892)
Other Adjustments	-	(54,636)	(54,636)
Appropriations Used	-	(6,982,432)	(6,982,432)
<b>Total Budgetary Financing Sources</b>	<b>-</b>	<b>(217,345)</b>	<b>(217,345)</b>
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,330,889</b>	<b>11,330,889</b>
<b>Net Position</b>	<b>\$ 324,083</b>	<b>11,679,528</b>	<b>12,003,611</b>

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

**National Science Foundation**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30, 2012 and 2011**  
**(Amounts in Thousands)**

	<u>2012</u>	<u>2011</u>
<b>Budgetary Resources</b>		
Unobligated Balance - Brought Forward, October 1	\$ 228,900	\$ 206,534
Recoveries of Prior Year Unpaid Obligations	147,227	148,106
Other Changes in Unobligated Balance	<u>(43,353)</u>	<u>(40,889)</u>
Unobligated Balance from Prior Year Budget Authority, Net	332,774	313,751
Appropriations	7,209,317	6,963,909
Spending Authority from Offsetting Collections	102,899	142,066
<b>Total Budgetary Resources</b>	<b><u>\$ 7,644,990</u></b>	<b><u>\$ 7,419,726</u></b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred (Note 9)	\$ 7,367,850	\$ 7,190,826
Unobligated Balance, End of Year		
Apportioned (Note 2)	158,316	125,610
Unapportioned (Note 2)	<u>118,824</u>	<u>103,290</u>
Total Unobligated Balance, End of Year	<u>277,140</u>	<u>228,900</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 7,644,990</u></b>	<b><u>\$ 7,419,726</u></b>
<b>Change in Obligated Balance</b>		
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 12,136,893	\$ 12,395,142
Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	<u>(139,326)</u>	<u>(98,305)</u>
Obligated Balance - Start of Year, Net	11,997,567	12,296,837
Obligations Incurred	7,367,850	7,190,826
Gross Outlays	<u>(7,410,768)</u>	<u>(7,300,968)</u>
Change in Uncollected Customer Payments from Federal Sources	2,831	(41,022)
Recoveries of Prior Year Unpaid Obligations	<u>(147,227)</u>	<u>(148,106)</u>
Obligated Balance - End of Year, Net (Note 2)	<b><u>\$ 11,810,253</u></b>	<b><u>\$ 11,997,567</u></b>
Obligated Balance - End of Year		
Unpaid Obligations - End of Year, Gross	\$ 11,946,749	\$ 12,136,893
Uncollected Customer Payments from Federal Sources - End of Year	<u>(136,496)</u>	<u>(139,326)</u>
<b>Obligated Balance - End of Year, Net (Note 2)</b>	<b><u>\$ 11,810,253</u></b>	<b><u>\$ 11,997,567</u></b>
<b>Budget Authority and Outlays, Net</b>		
Budget Authority, Gross	\$ 7,312,216	\$ 7,105,975
Actual Offsetting Collections	(105,730)	(101,044)
Change in Uncollected Customer Payments from Federal Sources	2,831	(41,022)
Budget Authority, Net	<b><u>\$ 7,209,317</u></b>	<b><u>\$ 6,963,909</u></b>
Gross Outlays	\$ 7,410,768	\$ 7,300,968
Actual Offsetting Collections	<u>(105,730)</u>	<u>(101,044)</u>
Net Outlays	<b><u>7,305,038</u></b>	<b><u>7,199,924</u></b>
Distributed Offsetting Receipts	<u>(48,891)</u>	<u>(53,717)</u>
Net Agency Outlays	<b><u>\$ 7,256,147</u></b>	<b><u>\$ 7,146,207</u></b>

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

## **Notes to the Principal Financial Statements**

### **Note 1. Summary of Significant Accounting Policies**

#### ***A. Reporting Entity***

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

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

#### ***B. Basis of Presentation***

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and 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.

The presentation used for the Statement of Budgetary Resources (SBR) prior to FY 2012 has been revised to reflect a new format required pursuant to the OMB Circular A-136, *Financial Reporting Requirements*, meant to better align with the Department of Treasury Form SF 133. Circular A-136 requires agencies to present both the FY 2012 and 2011 SBR in the same format. Accordingly, even though beginning balances for the FY 2011 SBR were not changed, certain reclassifications were made to the previously issued FY 2011 SBR to conform to the new format.

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

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

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

NSF traditionally receives the majority of its funding through appropriations contained in the Commerce, Justice, Science, and Related Agencies Appropriations Act. NSF receives annual, multi-year, and no-year appropriations that may be expended within statutory limits. NSF also receives funding via warrant from

a 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 Treasury at the end of each fiscal year.

In FY 2012, The Science Appropriations Act, 2012 under Public Law 112-55 provided funding for each of NSF's 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 (PP&E). "Unfunded" liabilities result from liabilities not covered by budgetary resources and will be paid when future appropriations are made available for these purposes. Donations are recognized as revenues when funds are received. Revenues from reimbursable agreements are recognized when the services are provided and the related expenditures are incurred. Reimbursable agreements are mainly for grant administrative services provided by NSF on behalf of other federal agencies.

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

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

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

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

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

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

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

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

incur costs on a reimbursable basis. Advances are reduced when documentation supporting expenditures is received and recorded.

### ***H. General Property, Plant and Equipment***

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

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

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

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

#### **Equipment**

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

#### **Aircraft and Satellites**

7 years	Aircraft, aircraft conversions, and satellites
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#### **Buildings and Structures**

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

#### **Leases and Leasehold Improvements**

The NSF Headquarter buildings are leased through GSA under an occupancy agreement. The cancellation clause within the agreement allows NSF to terminate use with a 120 day notice. NSF is billed by GSA for the leased space as rent based upon estimated lease payments made by GSA plus an administrative fee. Therefore, the cost of the Headquarter buildings is not capitalized by NSF. All NSF leases are cancellable and/or in effect for a period of no more than one year. In December 2013,



the GSA lease for NSF headquarters expires, and the minimum lease payment through that date is \$20.8 million. NSF will continue to collaborate with GSA in 2013 to finalize a procurement solution. All other operating leases held by NSF are immaterial.

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. As a result of NSF's capitalization policy requiring a useful life of at least two years, all leasehold improvement activity completed during this fiscal year was expensed.

### **Internal Use Software**

NSF controls, values, and reports purchased or developed software as tangible property assets, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10 – *Accounting for Internal Use Software*. NSF identifies software investments as accountable property for items that, in the aggregate, cost \$500 thousand or more to purchase, develop, enhance, or modify a new or existing NSF system. Software projects that are not completed at year end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the 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: 1) 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 2) report information on costs incurred to acquire the research facilities, equipment, and platforms in the Research and Human Capital Activity costs as required by the SFFAS No. 8, *Supplementary Stewardship Reporting*. Very few entities disclose information on NSF titled property in their audited financial statements. Therefore, NSF has elected to disclose only the number of entities in possession of NSF-owned property. Entities that separately present the book value of NSF titled property in their audited financial statements and all FFRDCs are listed in Note 4, General Property, Plant, and Equipment in the Custody of Other Entities, along with the book value of the property held.

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

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

### ***J. Accounts Payable***

Accounts Payable consists of liabilities to federal agencies, commercial vendors, contractors, and disbursements in transit. Accounts Payable to federal agencies, commercial vendors, and contractors are

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

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

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

NSF applies a grant accrual methodology that nets advances to grantees against the accrued grant liability. The accrued expenditure is first applied to liquidate the balance of Advances to Grantees. Any remaining accrual is then applied as an accrued grant liability.

##### **Regular Grants**

The total grant liabilities for the year include an estimate of prior quarter expenditures incurred. 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. The timing difference causes funding to grantees to be recorded as an advance. 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.

##### **American Recovery and Reinvestment Act Grants**

By Presidential and Congressional direction, American Recovery and Reinvestment Act of 2009 (ARRA) funding is meant to be expended as expeditiously as possible. As a result, NSF applies an accelerated approach to recognizing ARRA grant expenditures. The accrual method for ARRA grants in the Research and Related Activities (R&RA) and Education and Human Resources (EHR) appropriations applies statistical analysis based on the historical change in actual ARRA grant expenditures. For ARRA-related grants in the Major Research Equipment and Facilities Construction (MREFC) appropriation, the Large Facilities Office provides estimated expenditures based on the progress of individual construction projects.

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

Accrued Liabilities—Contracts and Payroll consist of contract accruals and accrued payroll. The total contracts liabilities for the year are determined based on an estimate of prior quarter expenditures incurred by contractors that are funded on an advance basis. Expenditures are estimated for each contractor by computing an average of the previous four quarters of actual expenditures reported. The accrual increases expenditures and decreases advances for the account. If the estimated accrual amount exceeds total advances, a liability is accrued for the excess. NSF's payroll services are provided by the Department of the Interior's National Business Center. Accrued payroll relates to services rendered by NSF employees, for which they are not yet paid. At year end, NSF accrues the amount of wages earned, but not yet paid.

#### ***M. Employee Benefits***

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

of expenses. Future NSF Agency Operations and Award Management (AOAM) appropriations will be used for DOL's estimated reimbursement.

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

#### ***N. Net Position***

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

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

In FY 2012, approximately 13 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. They 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: [www.opm.gov/retire/pubs/bals/2012/12-307.pdf](http://www.opm.gov/retire/pubs/bals/2012/12-307.pdf).

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

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

Claims and lawsuits can also be made and filed against awardees of the Foundation by third parties. NSF is not a party to these actions and NSF believes there is no possibility that NSF will be legally required to satisfy such claims. Judgments or settlements of the claims against awardees that impose financial

obligation on them may be claimed as costs under the applicable contract, grant, or cooperative agreement and thus may affect the allocation of program funds in future fiscal years. In the event that the claim becomes probable and amounts can be reasonably estimated, the claim will be recognized.

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

*Termination Claims:* NSF engages organizations, including FFRDCs, in cooperative agreements and contracts to manage, operate, and maintain research facilities for the benefit of the scientific community. As part of these agreements and contracts, NSF funds on a pay-as-you-go basis certain employee benefit costs (accrued vacation and other employee related liabilities, severance pay, and medical insurance), long-term leases, and vessel usage and drilling. In some instances, an award decision is made to continue operation of a facility with a different entity performing operation and management duties. In such an occurrence, NSF does not classify the facility as terminated. Claims submitted by the previous managing entity for expenditures not covered by the indirect cost rate included in the initial award are subject to audit and typically paid with existing program funds.

Agreements with FFRDCs include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event a facility is terminated. NSF considers termination of these facilities only remotely possible. Should a facility be terminated, NSF is obligated to pay termination expenses for FFRDCs in excess of the limitation of funds set forth in the agreements, including any Post Retirement Benefit liabilities, only if funds are appropriated for this specific purpose. Nothing in these agreements can be construed as implying that Congress will appropriate funds to meet the terms of any claims. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the facility is terminated.

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

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

***Q. Use of Estimates***

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

**Note 2. Fund Balance With Treasury**

Fund Balance With Treasury (FBWT) consisted of the following components as of September 30, 2012 and 2011:

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

(Amounts in Thousands)		2011			
	Appropriated Funds	Donated Funds	Earmarked Funds	Total	
Obligated	\$ 11,684,723	\$ 45,845	\$ 266,999	\$ 11,997,567	
Unobligated Available	13,408	52,243	59,959	125,610	
Unobligated Unavailable	102,227	93	970	103,290	
Less: Budgetary Non-FBWT	-	(51,379)	-	(51,379)	
Total FBWT	\$ 11,800,358	\$ 46,802	\$ 327,928	\$ 12,175,088	

The Donations Account includes amounts donated to NSF from all sources. Funds in the Donations Account may be used to further one or more of the general purposes of the Foundation. The donated funds are held as 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 \$55.9 million by the bank, through the Federal Reserve Bank of St. Louis, in accordance with Treasury Financial Manual Volume 1, Chapter 6-9000. Unobligated Unavailable balances include recoveries of prior year obligations and other unobligated expired funds that are unavailable for new obligations.

In FY 1999, in accordance with P.L. 105-277, a special fund named H-1B 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. General Property, Plant and Equipment, Net**

The components of General Property, Plant, and Equipment as of September 30, 2012 and 2011 were:

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

(Amounts in Thousands)		2011		
	Acquisition Cost	Accumulated Depreciation	Net Book Value	
Equipment	\$ 135,785	\$ (109,646)	\$ 26,139	
Aircraft and Satellites	138,487	(138,487)	-	
Buildings and Structures	297,609	(99,599)	198,010	
Leasehold Improvements	10,981	(7,048)	3,933	
Construction in Progress	17,491	-	17,491	
Internal Use Software	8,096	(7,192)	904	
Software in Development	31,649	-	31,649	
Total PP&E	\$ 640,098	\$ (361,972)	\$ 278,126	

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

NSF received a ruling from FASAB on accounting for PP&E owned by NSF but in the custody of and used by others (see Note 1H, General Property, Plant and Equipment (PP&E)). The FASAB guidance requires PP&E in the custody of others be excluded from NSF PP&E as defined in the SFFAS No. 6, *Accounting for Property, Plant and Equipment*. NSF is required to disclose the dollar amount of NSF PP&E held by others in the footnotes based on information contained in the most recently issued audited financial statements of the organization holding the assets.

At September 30, 2012, there were 38 colleges or universities and 37 commercial entities that held property titled to NSF. None of the colleges, universities, or commercial entities reported NSF titled property separately.

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



(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	<u>Amount</u>	<u>Fiscal Year Ending</u>
University Corporation for Atmospheric Research - UCAR	\$176,185	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	N/A	9/30
National Radio Astronomy Observatory - AUI	\$515,892	9/30

### **Note 5. Earmarked Funds**

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

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

The H-1B Nonimmigrant Petitioner fees are available to the Director of NSF until expended. The funds may be used for scholarships to low-income students, or to carry out a direct or matching grant program to support private and/or public partnerships in K-12 education. The H-1B Fund is set up as a permanent, indefinite appropriation by NSF. These funds are included in the Budget of the United States Government ("President's Budget"). The earmarked funds are accounted for in a separate Treasury Account Fund Symbol (TAFS). 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, 2012 and 2011**

(Amounts in Thousands)	2012	2011
<b>Balance Sheet as of September 30, 2012 and 2011</b>		
Fund Balance With Treasury	\$ 348,255	\$ 327,928
Total Assets	<u>348,255</u>	<u>327,928</u>
Other Liabilities	4,051	3,845
Total Liabilities	<u>4,051</u>	<u>3,845</u>
Cumulative Results of Operations	344,204	324,083
Total Liabilities and Net Position	<u>\$ 348,255</u>	<u>\$ 327,928</u>

**Statement of Net Cost for the Periods Ended September 30, 2012 and 2011**

Program Costs	\$ 108,865	\$ 116,151
Net Cost of Operations	<u>\$ 108,865</u>	<u>\$ 116,151</u>

**Statement of Changes in Net Position For the Periods Ended September 30, 2012 and 2011**

Net Position Beginning of Period	\$ 324,083	\$ 335,454
Appropriated Earmarked Receipts Transferred In	128,986	104,780
Net Cost of Operation	<u>(108,865)</u>	<u>(116,151)</u>
Change in Net Position	20,121	(11,371)
Net Position End of Period	<u>\$ 344,204</u>	<u>\$ 324,083</u>

**Note 6. Statement of Net Cost**

Net costs are presented for the three primary appropriations that fund NSF's programmatic activities (R&RA, EHR, and MREFC) 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."

In pursuit of its mission, NSF incurs costs related to the Foundation's strategic plan for FY 2011–2016: *Empowering the Nation through Discovery and Innovation*. The strategic goals outlined are as follows:

- *Transform the Frontiers*, which emphasizes the seamless integration of research and education, as well as the close coupling of research infrastructure and discovery.
- *Innovate for Society*, which points to the tight linkage between NSF programs and societal needs, and highlights the role that new knowledge and creativity play in economic prosperity and society's general welfare.
- *Perform as a Model Organization*, which emphasizes the importance to NSF of attaining excellence and inclusion in all operational aspects.

Stewardship costs directly reflect the third strategic goal, *Perform as a Model Organization*, and are prorated among the Net Cost Programs. Stewardship costs include expenditures incurred from the AOAM, NSB, and Office of Inspector General (OIG) appropriations. These appropriations support salaries and benefits of persons employed at NSF; general operating expenses, including support of NSF's information systems technology; staff training, audit and OIG activities; and OPM and DOL benefits costs paid on behalf of NSF.

At September 30, 2012, approximately 96 percent of NSF's expenses amounting to \$7.1 billion were directly related to the *Transform the Frontiers* and *Innovate for Society* strategic outcome goals. At September 30, 2011, approximately 95 percent of NSF's expenses amounting to \$6.9 billion were directly related to the *Transform the Frontiers* and *Innovate for Society* strategic outcome goals. At September 30, 2012 and 2011, costs related to the Stewardship activities totaled \$333.7 million and \$337.2 million, respectively.

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

**Notes to the Principal Financial Statements**  
**September 30, 2012 and 2011**

***Intragovernmental and Public Costs and Earned Revenue by Program***

(Amounts in Thousands)		2012		
		Federal	Public	Total
Research and Related Activities				
Gross Costs	\$	255,075	\$ 5,879,466	\$ 6,134,541
Less: Earned Revenue		(107,478)	-	(107,478)
Net Research and Related Activities		147,597	5,879,466	6,027,063
Education and Human Resources				
Gross Costs	\$	4,117	\$ 873,805	\$ 877,922
Less: Earned Revenue		(5,692)	-	(5,692)
Net Education and Human Resources		(1,575)	873,805	872,230
Major Research Equipment and Facilities Construction				
Gross Costs	\$	5,458	\$ 265,010	\$ 270,468
Less: Earned Revenue		-	-	-
Net Major Research Equipment and Facilities Construction		5,458	265,010	270,468
Costs Not Assigned To Other Programs				
Gross Costs	\$	292	\$ 165,604	\$ 165,896
Less: Earned Revenue		-	-	-
Net Costs Not Assigned To Other Programs		292	165,604	165,896
Net Cost of Operations	\$	151,772	\$ 7,183,885	\$ 7,335,657
(Amounts in Thousands)		2011		
		Federal	Public	Total
Research and Related Activities				
Gross Costs	\$	214,429	\$ 5,789,928	\$ 6,004,357
Less: Earned Revenue		(110,458)	-	(110,458)
Net Research and Related Activities		103,971	5,789,928	5,893,899
Education and Human Resources				
Gross Costs	\$	5,388	\$ 831,367	\$ 836,755
Less: Earned Revenue		(8,350)	-	(8,350)
Net Education and Human Resources		(2,962)	831,367	828,405
Major Research Equipment and Facilities Construction				
Gross Costs	\$	504	\$ 261,201	\$ 261,705
Less: Earned Revenue		-	-	-
Net Major Research Equipment and Facilities Construction		504	261,201	261,705
Costs Not Assigned To Other Programs				
Gross Costs	\$	877	\$ 155,108	\$ 155,985
Less: Earned Revenue		-	-	-
Net Costs Not Assigned To Other Programs		877	155,108	155,985
Net Cost of Operations	\$	102,390	\$ 7,037,604	\$ 7,139,994

### **Note 7. American Recovery and Reinvestment Act of 2009**

In FY 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA) under Public Law 111-5. ARRA provided NSF with two-year funding to the R&RA, EHR, and MREFC appropriations in the amount of \$3.0 billion. ARRA also provided NSF with five-year funding to the OIG in the amount of \$2.0 million for audits and oversight of ARRA funds. By September 30, 2010, NSF had obligated R&RA, EHR, and MREFC ARRA funds in the amount of \$3.0 billion. As of September 30, 2012 and 2011, NSF obligated OIG ARRA funds in the amount of \$851.2 thousand and \$155.2 thousand, respectively. For details on ARRA disbursements and reporting requirements, refer to NSF's Recovery Act website at [www.nsf.gov/recovery](http://www.nsf.gov/recovery).

### **Note 8. Permanent Indefinite Appropriations**

NSF maintains permanent indefinite appropriations for R&RA, MREFC, and EHR. The R&RA appropriation is used for polar research and operations support, and for reimbursement to other federal agencies for operational and science support and logistical and other related activities for the USAP. In FYs 2012 and 2011, the permanent indefinite appropriations for R&RA were \$437.3 million and \$441.1 million, respectively, and are reported as current year transfers from the annual R&RA appropriation.

The MREFC appropriation supports the procurement and construction of unique national research platforms and major research equipment. In FYs 2012 and 2011, the permanent indefinite appropriations for MREFC were \$167.1 million and \$117.3 million, respectively.

The EHR appropriation is used to carry out science and engineering education, and human resources programs and activities. In FYs 2012 and 2011, the permanent indefinite appropriations for EHR were \$54.9 million and \$86.8 million, respectively, and are reported as current year transfers from the annual EHR appropriation.

### **Note 9. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, requires direct and reimbursable obligations be reported as Category A, Category B, or Exempt from Apportionment. In FYs 2012 and 2011, NSF's SF-133, *Report on Budget Execution and Budgetary Resources*, reported all obligations incurred under Category B which is by activity, project, or object. As of September 30, 2012 and 2011, direct obligations amounted to \$7.3 billion and \$7.1 billion, respectively, and reimbursable obligations amounted to \$107.1 million and \$134.3 million, respectively.

### **Note 10. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government**

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY 2012 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of FY 2013 and can be found on the OMB web site at: <http://www.whitehouse.gov/omb>.

**Notes to the Principal Financial Statements**  
**September 30, 2012 and 2011**

Balances reported in the FY 2011 SBR and the related President's Budget are shown in a table below for Budgetary Resources, Obligations Incurred, Unobligated Balance—Unavailable, Distributed Offsetting Receipts, and any related differences. The differences reported are due to differing reporting requirements for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations. Additionally, the Distributed Offsetting Receipts amount on the SBR includes donations, while the President's Budget does not.

(Amounts in Thousands)		2011			
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable	Distributed Offsetting Receipts	
Combined Statement of Budgetary Resources	\$ 7,419,726	\$ 7,190,826	\$ 103,290	\$ 53,717	
Budget of the U.S. Government	\$ 7,318,168	\$ 7,189,710	\$ 2,848	\$ 1,000	
Difference	\$ 101,558	\$ 1,116	\$ 100,442	\$ 52,717	

**Note 11. 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, 2012 and 2011, amounted to \$11.4 billion and \$11.7 billion, respectively.

**Note 12. Awards to Affiliated Institutions**

NSB members may be affiliated with institutions that are eligible to receive grants and awards from NSF. NSF made awards totaling \$769.6 million to board member affiliated institutions in 2012. The Board does not review all NSF award actions; however, the following require NSB approval for the NSF Director to take action under delegated authority:

- Proposed awards, requests for proposals (RFPs), and solicitations that meet or exceed a threshold where the average annual award amount is the greater of 1 percent or more of the awarding Directorate's or Office's prior year plan or 0.1% or more of the prior year total NSF budget (enacted level);
- New programs where the total annualized awards exceed 3.0% of the awarding Directorate's or Office's prior year current plan, involve sensitive political or policy issues, or will be funded as an ongoing NSF-wide activity;
- Major construction projects

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

NSF may fund awards meeting the above requirements to institutions affiliated with board members. Federal conflict of interest rules prohibit NSB members from participating in matters where they have a

conflict of interest or there is an impartiality concern without prior authorization from the Designated Agency Ethics Official (DAEO). Prior to Board meetings, all NSB action items are screened for conflict of interest/impartiality concerns by the Office of the General Counsel. Members who have conflicts are either recused from the matter or receive a waiver from the DAEO to participate. NSB did not approve any awards to board member affiliated institutions in 2012.

**Note 13. Reconciliation of Net Cost of Operations to Budget**

(Amounts in Thousands)	2012	2011
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 7,367,850	\$ 7,190,826
Less: Spending Authority from Offsetting Collections and Recoveries	(250,126)	(290,172)
Obligations Net of Offsetting Collections and Recoveries	7,117,724	6,900,654
Less: Offsetting Receipts	(48,891)	(53,717)
Net Obligations	7,068,833	6,846,937
Other Resources		
Imputed Financing	11,364	12,475
Other Resources	(113)	(304)
Net Other Resources Used to Finance Activities	11,251	12,171
Total Resources Used to Finance Activities	<b>7,080,084</b>	<b>6,859,108</b>
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	204,760	231,824
Resources that Fund Expenses Recognized in Prior Periods	5	(3,286)
Budgetary Offsetting Collections and Receipts that Do Not Affect		
Net Cost of Operations	48,891	53,717
Resources that Finance the Acquisition of Assets	(17,616)	(18,372)
Total Resources Used to Finance Items Not Part of the		
Net Cost of Operations	<b>236,040</b>	<b>263,883</b>
Total Resources Used to Finance Net Cost of Operations	<b>7,316,124</b>	<b>7,122,991</b>
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	693	5
Total Components of Net Cost of Operations that will Require		
or Generate Resources in Future Periods	693	5
Components Not Requiring or Generating Resources		
Depreciation and Amortization	18,725	16,754
Other	115	244
Total Components of Net Cost of Operations that will not		
Require or Generate Resources	18,840	16,998
Total Components of Net Cost of Operations that Will Not		
Require or Generate Resources in the Current Period	<b>19,533</b>	<b>17,003</b>
Net Cost of Operations	<b>\$ 7,335,657</b>	<b>\$ 7,139,994</b>

## **Required Supplementary Stewardship Information**

### **Stewardship Investments**

**For the Years Ended September 30, 2012 and 2011**



**Required Supplementary Stewardship Information**  
**September 30, 2012 and 2011**

**Stewardship Investments**  
**Research and Human Capital**

**Research and Human Capital Activities**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Basic Research	\$ 5,590,843	\$ 5,401,356	\$ 5,249,579	\$ 4,413,407	\$ 4,449,062
Applied Research	532,729	404,596	416,008	498,544	409,516
Education and Training	991,543	1,115,680	1,019,776	867,333	911,369
Non-Investing Activities	333,712	337,170	312,269	332,623	283,245
<b>Total Research &amp; Human Capital Activities</b>	<b>\$ 7,448,827</b>	<b>\$ 7,258,802</b>	<b>\$ 6,997,632</b>	<b>\$ 6,111,907</b>	<b>\$ 6,053,192</b>

**Inputs, Outputs and/or Outcomes**

**Research and Human Capital Activities**

Investments In:

Universities	\$ 5,445,926	\$ 5,192,332	\$ 5,103,835	\$ 4,340,871	\$ 4,189,050
Industry	280,452	350,115	286,419	253,114	251,695
Federal Agencies	264,846	195,652	203,635	219,367	256,186
Small Business	239,866	254,215	268,697	209,343	224,793
Federally Funded R&D Centers	229,474	231,234	246,217	232,319	229,259
Non-Profit Organizations	523,772	522,958	408,441	381,882	444,236
Other	464,491	512,296	480,388	475,011	457,973
	<b>\$ 7,448,827</b>	<b>\$ 7,258,802</b>	<b>\$ 6,997,632</b>	<b>\$ 6,111,907</b>	<b>\$ 6,053,192</b>

Support To:

Scientists	\$ 544,452	\$ 540,865	\$ 568,140	\$ 695,389	\$ 512,147
Postdoctoral Programs	192,863	196,071	188,665	252,639	164,519
Graduate Students	574,557	564,021	602,990	933,063	615,621
	<b>\$ 1,311,872</b>	<b>\$ 1,300,957</b>	<b>\$ 1,359,795</b>	<b>\$ 1,881,091</b>	<b>\$ 1,292,287</b>

**Outputs & Outcomes:**

Number of:

Award Actions	23,000	22,000	24,000	28,000	23,000
Senior Researchers	56,000	53,000	55,000	54,000	43,000
Other Professionals	14,000	14,000	15,000	15,000	12,000
Postdoctoral Associates	6,000	7,000	7,000	8,000	6,000
Graduate Students	42,000	40,000	40,000	54,000	37,000
Undergraduate Students	31,000	27,000	34,000	33,000	24,000
K-12 Students	125,000	86,000	59,000	14,000	13,000
K-12 Teachers	45,000	48,000	85,000	63,000	62,000

NSF's mission is to support basic scientific research, research fundamental to the engineering process, and science and engineering education programs. NSF's Stewardship Investments fall principally into the categories of Research and Human Capital. For expenses incurred under the Research category, the majority of NSF funding is devoted to basic research, with a relatively small share going to applied research. This funding supports both the conduct of research and the necessary supporting infrastructure, including state-of-the-art instrumentation, equipment, computing resources, and multi-user facilities such as digital libraries, observatories, and research vessels and aircraft. In FY 2011, NSF slightly modified the methodology for developing the Basic Research, Applied Research, Education and Training, and Non-Investing Activity costs. Basic and applied research and education and training expenses are determined by prorating the program costs of NSF's R&RA, EHR and MREFC appropriations and donations and earmarked funds reported on the Statement of Net Cost. The proration uses the basic and applied research and education and training percentages of total estimated research and development obligations reported in the FY 2013 Budget Request to Congress. The actual numbers are not available until later in the following fiscal year. Non-Investing activities reflect stewardship costs incurred from the AOAM, NSB, and OIG appropriations.

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

NSF's Human Capital investments focus principally on education and training, toward a goal of creating a diverse, internationally competitive, and globally engaged workforce of scientists, engineers, and well-prepared citizens. NSF supports activities to improve formal and informal science, mathematics, engineering, and technology education at all levels, as well as public science literacy projects that engage people of all ages in lifelong learning. In FY 2011, the methodology used to produce the estimates of K-12 Students changed. In fiscal years prior to 2011, the number of K-12 students involved in NSF activities was based on estimates provided by staff in the Graduate Teaching Fellowships in K-12 Education (GK-12) program within EHR. In FYs 2012 and 2011, the numbers are based on a more robust data collection and analysis process.

## **Required Supplementary Information**

### **Deferred Maintenance**

**For the Years Ended September 30, 2012 and 2011**

### **Deferred Maintenance and Repairs**

NSF performs condition assessment surveys in accordance with FASAB Standards Nos. 6, 14, and. 40 for capitalized PP&E to determine if any maintenance and repairs are needed to keep an asset in an acceptable condition, or to restore an asset to a specific level of performance. NSF considers deferred maintenance and repairs to be any maintenance and repairs that are not performed on schedule, unless it is determined from the condition of the asset that scheduled maintenance does not have to be performed. Deferred maintenance and repairs also include any other type of maintenance or repair that, if not performed, would render the PP&E non-operational. Circumstances such as non-availability of parts or funding are considered reasons for deferring maintenance and repairs.

NSF considered whether any scheduled maintenance or repair necessary to keep fixed assets of the agency in an acceptable condition was deferred at the end of the period for FYs 2012 and 2011. Assets deemed to be in excellent, good, or fair condition are considered to be in acceptable condition. Assets in poor condition are in unacceptable condition, and the deferred maintenance and repairs required to get them to an acceptable condition are reported. NSF determines the condition of an asset in accordance with standards comparable to those used in the private industry. Due to the environment and remote location of Antarctica, all deferred maintenance and repairs on assets in poor condition is considered critical in order to maintain operational status.

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

At September 30, 2011, NSF determined that scheduled maintenance on three 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 \$3.3 thousand. The items are light mobile equipment, heavy mobile equipment, and power distribution. They are considered critical to NSF operations and are estimated to require \$6.2 thousand in maintenance.

## **Required Supplementary Information**

### **Budgetary Resources by Major Budget Accounts**

In the following table, NSF budgetary information for FYs ended September 30, 2012 and 2011, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts. ARRA funds are shown in a separate schedule.

**Required Supplementary Information**  
**September 30, 2012 and 2011**

**The Science Appropriations Act, 2012**

**2012**  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>Budgetary Resources</b>						
Unobligated Balance - Brought Forward, October 1	\$ 78,988	26,345	877	4,694	113,265	\$ 224,169
Recoveries of Prior Year Unpaid Obligations	120,302	15,946	835	3,778	3,623	144,484
Other Changes in Unobligated Balance	(29,581)	(11,155)	-	(2,617)	-	(43,353)
Unobligated Balance from Prior Year Budget Authority, Net	169,709	31,136	1,712	5,855	116,888	325,300
Appropriations	5,689,000	829,000	197,055	318,040	176,222	7,209,317
Spending Authority from Offsetting Collections	92,141	4,441	-	6,317	-	102,899
<b>Total Budgetary Resources</b>	<b>\$ 5,950,850</b>	<b>864,577</b>	<b>198,767</b>	<b>330,212</b>	<b>293,110</b>	<b>\$ 7,637,516</b>
<b>Status of Budgetary Resources</b>						
Obligations Incurred	\$ 5,857,488	835,540	198,081	324,367	151,678	\$ 7,367,154
Unobligated Balance, End of Year						
Apportioned	13,859	4,563	681	249	137,816	157,168
Unapportioned	79,503	24,474	5	5,596	3,616	113,194
Total Unobligated Balance, End of Year	93,362	29,037	686	5,845	141,432	270,362
<b>Total Status of Budgetary Resources</b>	<b>\$ 5,950,850</b>	<b>864,577</b>	<b>198,767</b>	<b>330,212</b>	<b>293,110</b>	<b>\$ 7,637,516</b>
<b>Change in Obligated Balance</b>						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 8,314,550	1,590,460	223,258	77,347	312,844	\$ 10,518,459
Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	(126,804)	(11,703)	-	(819)	-	(139,326)
Obligated Balance - Start of Year, Net	8,187,746	1,578,757	223,258	76,528	312,844	10,379,133
Obligations Incurred	5,857,488	835,540	198,081	324,367	151,678	7,367,154
Gross Outlays	(5,202,433)	(818,927)	(186,369)	(320,836)	(159,971)	(6,688,536)
Change in Uncollected Customer Payments from Federal Sources	1,231	969	-	631	-	2,831
Recoveries of Prior Year Unpaid Obligations	(120,302)	(15,946)	(835)	(3,778)	(3,623)	(144,484)
Obligated Balance - End of Year, Net	<b>\$ 8,723,730</b>	<b>1,580,393</b>	<b>234,135</b>	<b>76,912</b>	<b>300,928</b>	<b>\$ 10,916,098</b>
Obligated Balance - End of Year						
Unpaid Obligations - End of Year, Gross	\$ 8,849,304	1,591,126	234,135	77,101	300,928	\$ 11,052,594
Uncollected Customer Payments from Federal Sources-End of Year	(125,574)	(10,733)	-	(189)	-	(136,496)
<b>Obligated Balance - End of Year, Net</b>	<b>\$ 8,723,730</b>	<b>1,580,393</b>	<b>234,135</b>	<b>76,912</b>	<b>300,928</b>	<b>\$ 10,916,098</b>
<b>Budget Authority and Outlays, Net</b>						
Budget Authority, Gross	\$ 5,781,141	833,441	197,055	324,357	176,222	\$ 7,312,216
Actual Offsetting Collections	(93,371)	(5,411)	-	(6,948)	-	(105,730)
Change in Uncollected Customer Payments from Federal Sources	1,231	969	-	631	-	2,831
<b>Budget Authority, Net</b>	<b>\$ 5,689,001</b>	<b>828,999</b>	<b>197,055</b>	<b>318,040</b>	<b>176,222</b>	<b>\$ 7,209,317</b>
Gross Outlays	\$ 5,202,433	818,927	186,369	320,836	159,971	\$ 6,688,536
Actual Offsetting Collections	(93,371)	(5,411)	-	(6,948)	-	(105,730)
<b>Net Outlays</b>	<b>5,109,062</b>	<b>813,516</b>	<b>186,369</b>	<b>313,888</b>	<b>159,971</b>	<b>6,582,806</b>
Distributed Offsetting Receipts	-	-	-	-	(48,891)	(48,891)
<b>Net Agency Outlays</b>	<b>\$ 5,109,062</b>	<b>813,516</b>	<b>186,369</b>	<b>313,888</b>	<b>111,080</b>	<b>\$ 6,533,915</b>

**Required Supplementary Information**  
**September 30, 2012 and 2011**

**ARRA Funds**

**2012**

(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Budgetary Resources</b>					
Unobligated Balance - Brought Forward, October 1	\$ 2,857	30	-	1,844	\$ 4,731
Recoveries of Prior Year Unpaid Obligations	2,720	23	-	-	2,743
Other Changes in Unobligated Balance	-	-	-	-	-
Unobligated Balance from Prior Year Budget Authority, Net	5,577	53	-	1,844	7,474
Appropriations	-	-	-	-	-
Spending Authority from Offsetting Collections	-	-	-	-	-
<b>Total Budgetary Resources</b>	<b>\$ 5,577</b>	<b>53</b>	<b>-</b>	<b>1,844</b>	<b>\$ 7,474</b>
<b>Status of Budgetary Resources</b>					
Obligations Incurred	\$ -	-	-	696	\$ 696
Unobligated Balance, End of Year					
Apportioned	-	-	-	1,148	1,148
Unapportioned	5,577	53	-	-	5,630
Total Unobligated Balance, End of Year	5,577	53	-	1,148	6,778
<b>Total Status of Budgetary Resources</b>	<b>\$ 5,577</b>	<b>53</b>	<b>-</b>	<b>1,844</b>	<b>\$ 7,474</b>
<b>Change in Obligated Balance</b>					
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 1,271,721	76,103	270,610	-	\$ 1,618,434
Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	-	-	-	-	-
Obligated Balance - Start of Year, Net	1,271,721	76,103	270,610	-	1,618,434
Obligations Incurred	-	-	-	696	696
Gross Outlays	(610,760)	(21,178)	(89,636)	(658)	(722,232)
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Recoveries of Prior Year Unpaid Obligations	(2,720)	(23)	-	-	(2,743)
Obligated Balance - End of Year, Net	<b>\$ 658,241</b>	<b>54,902</b>	<b>180,974</b>	<b>38</b>	<b>\$ 894,155</b>
Obligated Balance - End of Year					
Unpaid Obligations - End of Year, Gross	\$ 658,241	54,902	180,974	38	\$ 894,155
Uncollected Customer Payments from Federal Sources - End of Year	-	-	-	-	-
<b>Obligated Balance - End of Year, Net</b>	<b>\$ 658,241</b>	<b>54,902</b>	<b>180,974</b>	<b>38</b>	<b>\$ 894,155</b>
<b>Budget Authority and Outlays, Net</b>					
Budget Authority, Gross	\$ -	-	-	-	\$ -
Actual Offsetting Collections	-	-	-	-	-
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Budget Authority, Net	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>
Gross Outlays	\$ 610,760	21,178	89,636	658	\$ 722,232
Actual Offsetting Collections	-	-	-	-	-
Net Outlays	<b>610,760</b>	<b>21,178</b>	<b>89,636</b>	<b>658</b>	<b>722,232</b>
Distributed Offsetting Receipts	-	-	-	-	-
Net Agency Outlays	<b>\$ 610,760</b>	<b>21,178</b>	<b>89,636</b>	<b>658</b>	<b>\$ 722,232</b>

**Required Supplementary Information**  
**September 30, 2012 and 2011**

**Full-Year Continuing Appropriation**

**2011**  
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
<b>Budgetary Resources</b>						
Unobligated Balance - Brought Forward, October 1	\$ 70,313	24,901	9,172	4,180	95,779	\$ 204,345
Recoveries of Prior Year Unpaid Obligations	130,638	9,449	20	2,984	2,390	145,481
Other Changes in Unobligated Balance	(26,680)	(11,873)	-	(2,336)	-	(40,889)
Unobligated Balance from Prior Year Budget Authority, Net	174,271	22,477	9,192	4,828	98,169	308,937
Appropriations	5,509,983	861,034	117,055	317,905	157,932	6,963,909
Spending Authority from Offsetting Collections	124,717	9,570	-	7,779	-	142,066
<b>Total Budgetary Resources</b>	<b>\$ 5,808,971</b>	<b>893,081</b>	<b>126,247</b>	<b>330,512</b>	<b>256,101</b>	<b>\$ 7,414,912</b>
<b>Status of Budgetary Resources</b>						
Obligations Incurred	\$ 5,729,983	866,736	125,370	325,818	142,836	\$ 7,190,743
Unobligated Balance, End of Year						
Apportioned	6,060	4,417	858	229	112,202	123,766
Unapportioned	72,928	21,928	19	4,465	1,063	100,403
Total Unobligated Balance, End of Year	78,988	26,345	877	4,694	113,265	224,169
<b>Total Status of Budgetary Resources</b>	<b>\$ 5,808,971</b>	<b>893,081</b>	<b>126,247</b>	<b>330,512</b>	<b>256,101</b>	<b>\$ 7,414,912</b>
<b>Change in Obligated Balance</b>						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 7,841,275	1,513,783	232,216	83,641	322,060	\$ 9,992,975
Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	(90,823)	(7,088)	-	(394)	-	(98,305)
Obligated Balance - Start of Year, Net	7,750,452	1,506,695	232,216	83,247	322,060	9,894,670
Obligations Incurred	5,729,983	866,736	125,370	325,818	142,836	7,190,743
Gross Outlays	(5,126,069)	(780,610)	(134,308)	(329,128)	(149,662)	(6,519,777)
Change in Uncollected Customer Payments from Federal Sources	(35,982)	(4,615)	-	(425)	-	(41,022)
Recoveries of Prior Year Unpaid Obligations	(130,638)	(9,449)	(20)	(2,984)	(2,390)	(145,481)
Obligated Balance - End of Year, Net	<b>\$ 8,187,746</b>	<b>1,578,757</b>	<b>223,258</b>	<b>76,528</b>	<b>312,844</b>	<b>\$ 10,379,133</b>
Obligated Balance - End of Year						
Unpaid Obligations - End of Year, Gross	\$ 8,314,550	1,590,460	223,258	77,347	312,844	\$ 10,518,459
Uncollected Customer Payments from Federal Sources - End of Year	(126,804)	(11,703)	-	(819)	-	(139,326)
<b>Obligated Balance - End of Year, Net</b>	<b>\$ 8,187,746</b>	<b>1,578,757</b>	<b>223,258</b>	<b>76,528</b>	<b>312,844</b>	<b>\$ 10,379,133</b>
<b>Budget Authority and Outlays, Net</b>						
Budget Authority, Gross	\$ 5,634,700	870,604	117,055	325,684	157,932	\$ 7,105,975
Actual Offsetting Collections	(88,736)	(4,955)	-	(7,353)	-	(101,044)
Change in Uncollected Customer Payments from Federal Sources	(35,982)	(4,615)	-	(425)	-	(41,022)
Budget Authority, Net	<b>\$ 5,509,982</b>	<b>861,034</b>	<b>117,055</b>	<b>317,906</b>	<b>157,932</b>	<b>\$ 6,963,909</b>
Gross Outlays	\$ 5,126,069	780,610	134,308	329,128	149,662	\$ 6,519,777
Actual Offsetting Collections	(88,736)	(4,955)	-	(7,353)	-	(101,044)
Net Outlays	<b>5,037,333</b>	<b>775,655</b>	<b>134,308</b>	<b>321,775</b>	<b>149,662</b>	<b>6,418,733</b>
Distributed Offsetting Receipts	-	-	-	-	(53,717)	(53,717)
Net Agency Outlays	<b>\$ 5,037,333</b>	<b>775,655</b>	<b>134,308</b>	<b>321,775</b>	<b>95,945</b>	<b>\$ 6,365,016</b>



**ARRA Funds**

**2011**

(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG</u>	<u>Total</u>
<b>Budgetary Resources</b>					
Unobligated Balance - Brought Forward, October 1	\$ 243	19	-	1,927	\$ 2,189
Recoveries of Prior Year Unpaid Obligations	2,614	11	-	-	2,625
Other Changes in Unobligated Balance	-	-	-	-	-
Unobligated Balance from Prior Year Budget Authority, Net	2,857	30	-	1,927	4,814
Appropriations	-	-	-	-	-
Spending Authority from Offsetting Collections	-	-	-	-	-
<b>Total Budgetary Resources</b>	<b>\$ 2,857</b>	<b>30</b>	<b>-</b>	<b>1,927</b>	<b>\$ 4,814</b>
<b>Status of Budgetary Resources</b>					
Obligations Incurred	-	-	-	83	83
Unobligated Balance, End of Year					
Apportioned	-	-	-	1,844	1,844
Unapportioned	2,857	30	-	-	2,887
Total Unobligated Balance, End of Year	2,857	30	-	1,844	4,731
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,857</b>	<b>30</b>	<b>-</b>	<b>1,927</b>	<b>\$ 4,814</b>
<b>Change in Obligated Balance</b>					
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 1,944,504	93,005	364,658	-	\$ 2,402,167
Uncollected Customer Payments from Federal Sources - Brought Forward, October 1	-	-	-	-	-
Obligated Balance - Start of Year, Net	1,944,504	93,005	364,658	-	2,402,167
Obligations Incurred	-	-	-	83	83
Gross Outlays	(670,169)	(16,891)	(94,048)	(83)	(781,191)
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Recoveries of Prior Year Unpaid Obligations	(2,614)	(11)	-	-	(2,625)
Obligated Balance - End of Year, Net	<b>\$ 1,271,721</b>	<b>76,103</b>	<b>270,610</b>	<b>-</b>	<b>\$ 1,618,434</b>
Obligated Balance - End of Year					
Unpaid Obligations - End of Year, Gross	\$ 1,271,721	76,103	270,610	-	\$ 1,618,434
Uncollected Customer Payments from Federal Sources - End of Year	-	-	-	-	-
<b>Obligated Balance - End of Year, Net</b>	<b>\$ 1,271,721</b>	<b>76,103</b>	<b>270,610</b>	<b>-</b>	<b>\$ 1,618,434</b>
<b>Budget Authority and Outlays, Net</b>					
Budget Authority, Gross	-	-	-	-	-
Actual Offsetting Collections	-	-	-	-	-
Change in Uncollected Customer Payments from Federal Sources	-	-	-	-	-
Budget Authority, Net	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>
Gross Outlays	\$ 670,169	16,891	94,048	83	\$ 781,191
Actual Offsetting Collections	-	-	-	-	-
Net Outlays	<b>670,169</b>	<b>16,891</b>	<b>94,048</b>	<b>83</b>	<b>781,191</b>
Distributed Offsetting Receipts	-	-	-	-	-
Net Agency Outlays	<b>\$ 670,169</b>	<b>16,891</b>	<b>94,048</b>	<b>83</b>	<b>\$ 781,191</b>

## **Other Accompanying Information**

### **Schedule of Spending**

**For the Year Ended September 30, 2012**

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

- What money is available to spend?
- How was the money spent?
- Who did the money go to?
- How was the money issued?

In accordance with OMB guidance, NSF has prepared the first two sections of the Schedule for FY 2012:

- 1. What money is available to spend?** This section ties directly to the SBR and indicates the total FY 2012 resources available less funds that were unobligated or unavailable for spending.
- 2. How was the money spent?** This section presents the services or items that were purchased in FY 2012 by appropriation category. It is tied to OMB's Budget Object Class categories. The Other and Unclassified Information line is comprised of management estimate accruals. A positive balance in the Amounts Remaining to be Spent line represents unpaid obligations and prior year recoveries; a negative balance represents obligations paid in FY 2012 that were originally incurred in a prior fiscal year.

**Schedule of Spending**  
**For the Year Ended September 30, 2012**  
(Amounts in Thousands)

**What Money is Available to Spend?**

Total Resources	\$ 7,644,990
Less Amount Available	
but Not Agreed to be Spent	158,316
Less Amount Not Available to be Spent	118,824
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 7,367,850</b>

**How was the Money Spent?**

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Compensation and Benefits	\$ 749	279	-	204,396	13	\$ 205,437
Travel and Transportation of Persons	15,555	2,897	(3)	5,554	350	24,353
Agency Support Materials	1,841	121	-	4,677	23	6,662
Rent, Communications, and Utilities	546	106	-	29,195	20	29,867
Other Contractual Services	479,445	31,925	(348)	67,630	14,549	593,201
Equipment	1,752	-	-	2,605	-	4,357
Grants, Subsidies and Contributions	5,313,305	804,777	276,356	153	145,014	6,539,605
Other and Unclassified	-	-	-	7,284	2	7,286
<b>Total Spending</b>	<b>5,813,193</b>	<b>840,105</b>	<b>276,005</b>	<b>321,494</b>	<b>159,971</b>	<b>7,410,768</b>
Amounts Remaining to be Spent	44,295	(4,565)	(77,924)	3,569	(8,293)	(42,918)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 5,857,488</b>	<b>835,540</b>	<b>198,081</b>	<b>325,063</b>	<b>151,678</b>	<b>\$ 7,367,850</b>