

The logo for NIFTY (National Financial Index) is centered in the upper half of the page. It features the word "NIFTY" in a bold, serif font, with the letters "N", "S", and "F" being significantly larger than "I", "T", and "Y". The text is white and set against a dark blue circular background. This circle is surrounded by a larger, lighter blue gear-like pattern that fills the upper portion of the page. The overall design is clean and professional, with a color palette of blues and greens.

NIFTY

Chapter 2

Financials



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



Credit: Sandy Schaeffer

Fiscal year (FY) 2015 was another year of extraordinary challenges. FY 2015 was also our first full operating year under iTRAK, the agency's new financial management system. iTRAK implementation was only one of many significant accomplishments achieved in FY 2015 as we continue to develop new strategies, share best practices, and deploy new technologies to enhance our monitoring and federal funds management capabilities in support of NSF's core mission.

I am pleased to report that the National Science Foundation received its 18th consecutive unmodified audit opinion for FY 2015, affirming that the agency's financial statements for the year ended September 30, 2015, were presented fairly in all material respects and in conformity with U.S. generally accepted accounting principles. The Independent Auditors' Report noted no material weaknesses, and the prior-year significant deficiency related to NSF's grant accrual accounting estimation process has been removed. I appreciate my staff's hard work and dedication in making this significant positive impact. The prior-year significant deficiency related to the monitoring of construction type cooperative agreements was repeated for FY 2015. NSF will continue to work to strengthen controls for awarding and overseeing construction type cooperative agreements in response to Office of Inspector General concerns. In FY 2015, NSF made substantial progress in this area, as described below.

Several important management accomplishments in FY 2015 highlight NSF's continued government-wide leadership in stewardship and federal financial management.

- NSF continues to take substantive steps to further strengthen controls over the management of large facility projects. In June of 2015, NSF finalized a new policy on the use of management fee by large facility awardees. The policy places strict controls on awardees to govern the use of fees to cover legitimate business expenses necessary for the construction and operation of facilities while also instituting a process for on-going review of fee use. By the end of FY 2015, NSF had negotiated management fee agreements under the new policy for the majority of large facility awards, and OMB had recognized the new policy as a government-wide best practice. Besides strengthening policies related to management fee, the June 2015 release of NSF's *Large Facilities Manual* included the codification of the NSF Integrated Project Team that provides internal guidance in planning, review, and oversight; stronger policies on the development and use of contingency; and a new requirement that NSF conduct a cost assessment at each stage-gate design review. NSF is also putting into place mechanisms to support independent cost estimate reviews and incurred cost audits. An incurred cost audit will now be conducted at the end of each large facility project, and potentially during construction based on an annual risk assessment. Additionally, NSF further increased controls on large facility awards in FY 2015 by extending the use of its strengthened procedures to large facility operations awards.
- NSF successfully completed its first full year operating with iTRAK. NSF's ability to maintain its unmodified audit opinion in FY 2015 is a testament to the high level of agency-wide communication, collaboration, and change management that was required to replace NSF's 25-year-old, custom-built legacy financial management system with a cloud-based commercial off the shelf product. Recording, sharing, and incorporating best practices developed during the years leading up to iTRAK implementation eased NSF's transition to the new system; and while we still faced some challenges in FY 2015, we also have many accomplishments to report. iTRAK

implementation has improved internal controls, reduced transaction cycle time, minimized redundancies in workload, and improved overall agency financial reporting capabilities. These accomplishments, in addition to those planned for FY 2016, lay a firm foundation for NSF to maintain its government-wide leadership position in financial management and accountability.

- NSF continued its key government-wide leadership role with respect to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). NSF was proud to be the first agency to implement the Uniform Guidance (2 CFR § 200) via our *Proposal & Award Policies & Procedures Guide*, as well as the first to publish terms and conditions that incorporated 2 CFR § 200 and therefore made the Uniform Guidance effective for NSF awards. NSF also leads the effort to revise the *Research Terms and Conditions*, so that all research agencies use a common set of terms and conditions, which are consistent with the Uniform Guidance requirements. The Office of Management and Budget (OMB) continued to rely on NSF's policy expertise in FY 2015. NSF staff participated as subject-matter experts in a nationally broadcasted OMB webinar and served on a working group that developed technical corrections to the Uniform Guidance and the latest set of Frequently Asked Questions. All of these efforts improve the clarity and accessibility of government-wide grants policy, ease the administrative burden associated with federal awards, and strengthen government oversight of federal funds to reduce the risk of fraud, waste, and abuse.
- In the spring of 2015, NSF conducted its second annual round of Strategic Reviews, a process by which federal agencies assess performance on the strategic objectives in their Strategic Plans. Strategic Reviews have quickly become the cornerstone of NSF's performance framework because we deliberately focus the process on topics that require attention in the near term. Senior NSF leaders choose a small number of key analytical questions intended to inform strategy and budget and to identify opportunities for improvements. A broad array of evidence is then synthesized to answer the key questions and to formulate recommendations to improve agency performance. In FY 2015, focus areas included: potential barriers to the support of Next Generation Research Infrastructure; mechanisms that NSF uses to support graduate students; the use of NSF-funded data repositories; and Public Participation in Scientific Research. The Strategic Reviews recommended numerous opportunities for improvement, including NSF's two new Agency Priority Goals to improve STEM graduate student preparedness and to invest strategically in public participation in STEM research.

Financial accountability and effective business processes underpin NSF's programmatic activities and are critical to the achievement of the agency's mission. Consequently, NSF is committed to accountable reporting, transparency, and good government. As always, I welcome your feedback on how we can make this report more informative to our stakeholders and our readers.

/s/

MARTHA A. RUBENSTEIN

November 16, 2015



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

TO: Dr. France Córdova
Director, National Science Foundation

Dr. Dan E. Arvizu
Chair, National Science Board

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

DATE: November 13, 2015

SUBJECT: Audit of the National Science Foundation's
Fiscal Years 2015 and 2014 Financial Statements

This memorandum transmits CliftonLarsonAllen LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2015 and 2014.

Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), CliftonLarsonAllen LLP (CliftonLarsonAllen), an independent public accounting firm, performed audits of NSF's Fiscal Years 2015 and 2014 financial statements. The contract required that the audits be performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and the United States Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*.

CliftonLarsonAllen issued an unmodified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, CliftonLarsonAllen did not report any material weaknesses in internal control; however, it did report one significant deficiency in internal control. This significant deficiency, initially identified in 2011, relates to NSF's monitoring of construction type cooperative agreements. CliftonLarsonAllen also reported one instance of noncompliance with the Improper Payments Elimination and Recovery Act (IPERA) that is required to be reported in accordance with Government Auditing Standards and OMB Bulletin 15-02. These issues are described in detail in the exhibits to the Independent Auditors' Report. With the exception of IPERA, CliftonLarsonAllen reported that there were no other instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements it tested, including those relating to the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

NSF management's response, dated November 13, 2015, follows CliftonLarsonAllen's report.

Evaluation of CliftonLarsonAllen's Audit Performance

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

- Reviewed CliftonLarsonAllen's approach and planning of the audit;
- Evaluated the qualifications and independence of CliftonLarsonAllen and its staff;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with NSF management to discuss audit progress, findings, and recommendations;
- Reviewed CliftonLarsonAllen's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 15-02; and
- Coordinated issuance of the audit report.

CliftonLarsonAllen is responsible for the attached Independent Auditors' Report dated November 13, 2015, which includes the following reports:

- Report on the Financial Statements, including an opinion of the Financial Statements;
- Report on Internal Control over Financial Reporting; and
- Report on Compliance and Other Matters

The OIG does not express any opinion on NSF's financial statements, or conclusions on the effectiveness of internal control, or on compliance with laws, regulations, contracts and grant agreements.

CliftonLarsenAllen's Independent Auditor's Report, is meant only to be distributed and read as part of the Agency Financial Report (AFR) document. Also, CliftonLarsenAllen's Independent Auditor's Report is not a stand-alone document because of the references made in it to the AFR contents and should not be circulated to anyone other than those receiving this OIG transmittal.

In accordance with Office of Management and Budget Circular A-50, *Audit Followup*, please provide a written corrective action plan within 60 days for the recommendations in the Audit Report. This corrective action plan should detail specific actions and milestone dates. We are available to work with your staff during the next 60 days to ensure the submission of a mutually agreeable corrective action plan.

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

Attachment

cc: Dr. Ruth David, Chair, Audit and Oversight Committee
Dr. Richard Buckius, Chief Operating Officer
Marty Rubenstein, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

National Science Foundation:
Inspector General
Director

Chair of National Science Board

Report on the Financial Statements

We have audited the accompanying financial statements of the National Science Foundation (NSF), which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Science Foundation as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. All other sections referred to in the AFR table of contents, exclusive of the Independent Auditors' Report, Financial Statements and Notes, MD&A, RSI, and RSSI, is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NSF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

INDEPENDENT AUDITORS' REPORT (Continued)

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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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

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

- Monitoring of Construction Type Cooperative Agreements

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NSF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance with the Improper Payment Elimination and Recovery Act (IPERA) that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 15-02. This noncompliance matter is listed below, and described in **Exhibit B**:

- Non-Compliance with the Improper Payments Elimination and Recovery Act (IPERA) Reporting Requirements in Fiscal Year 2014 Agency Financial Report

Compliance with FFMIA Requirements

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

INDEPENDENT AUDITORS' REPORT (Continued)

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring NSF's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether NSF's financial management systems comply substantially with the FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements which could have a material effect on the financial statements.

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

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

Status of Prior Year's Control Deficiencies

Our FY 2014 Independent Auditors' Report dated December 13, 2014, included two significant deficiencies in internal control. Even though some progress has been made in FY 2015 relating to NSF's *Monitoring of Construction Type Cooperative Agreements*, certain conditions previously noted continue to exist and are discussed in **Exhibit A**. The other FY 2014 significant deficiency conditions relating to NSF's *Grant Accrual Accounting Estimation Process* have been rectified in FY 2015 as explained in **Exhibit C**, and therefore are no longer considered a significant deficiency.

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

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our

INDEPENDENT AUDITORS' REPORT (Continued)

testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of NSF's internal control or on compliance and other matters. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NSF's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Management's Response to Findings

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

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

CliftonLarsonAllen LLP

Calverton, Maryland
November 13, 2015

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

Monitoring of Construction Type Cooperative Agreements

Background and Control Deficiency Criteria:

As of September 30, 2015, NSF had thirteen open construction type cooperative agreements (CA) aggregating approximately \$2 billion in projected award funding (\$1.4 billion obligated), which includes approximately \$343 million in contingency budgets representing approximately 17.5 percent of the total projected award funding for those projects.

Beginning with our fiscal year (FY) 2010 Independent Auditors' Report (Auditors' Report), we noted a variety of deficiencies in NSF's internal controls relating to the monitoring of construction type CAs, substantially comprised of deficiencies detailed in the NSF Office of Inspector General (OIG) and Defense Contract Audit Agency (DCAA) audit reports. The OIG issued an Alert Memo Report No. 12-6-001, *NSF's Management of Cooperative Agreements*, dated September 2012, reiterating concerns about the adequacy of NSF's review of proposed costs, the proposer's financial management capabilities, and NSF's post-award monitoring. These report matters were escalated to the Audit Follow-up Official (AFO) pursuant to the OIG's May 2014 Escalation Memorandum. The Memorandum focused on recommendations relating to pre-award and post-award cost surveillance measures as follows:

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

The Audit Follow-up Official (AFO) decisions issued in October 2014 and January 2015 resolved, as defined by OMB Circular A-50 (OMB A-50), the recommendations in the Escalation Memorandum. Pursuant to provisions set forth in OMB A-50, the decisions were therefore considered accepted by the OIG. Notwithstanding this acceptance and the fact that progress has been made, the OIG did not agree with the entirety of the AFO's decision. In addition, there are several issues over which we have differences of opinion with the decisions that were accepted and which we consider important to our evaluation of internal control performed in connection with the audit of NSF's financial statements, and continue to require management's attention:

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

- 1) The AFO did not specifically address unsupported contingency costs that were identified in the context of the prior proposal audits. As a result, NSF may have awarded funds in excess of what was needed to complete the projects and which could have been used to support other projects.
- 2) The decision not to require awardees to track contingency funds within their accounting system, nor for NSF to track that funding within its accounting system, results in NSF being unable to track the expenditure of contingency funds to ensure that they are in line with the awarded budget amounts, and not used for unallowable purposes. It is important to note that the Uniform Guidance (2 CFR 200) allows Federal awarding agencies to submit exceptions to the Uniform Guidance provisions. Such an exception must be approved by OMB. However, NSF has not requested an exception to require awardees to track contingency funds.

Even though progress had been made through September 30, 2015, complete agreement on a final plan of action to close these matters has not been achieved. In addition, OIG audit reports and other information obtained during our FY 2015 audit indicate that these matters need further attention by NSF management before the matters are closed.

In FY 2015, NSF made significant progress in designing procedures to rectify certain specific other weaknesses noted in our prior year Audit Report pertaining to future awards of CAs. However, some of those procedures were implemented late in the fiscal year, and we were unable to validate the effectiveness of such procedures. Additionally, as confirmed by both our tests and additional CA audits completed by the OIG and DCAA (on behalf of the OIG) in FY 2015, progress has continued to be slow in addressing the issues concerning older, still active, CAs with contingency funding.

Accordingly, some of the control deficiency conditions identified in our FY 2014 Audit Report have been repeated in our FY 2015 Audit Report.

Conditions:

- A.** The conditions identified in our prior year report that continue to exist are as follows:
- 1) DCAA and OIG issued 9 reports from 2010 through 2014 covering proposal costs of \$1.5 Billion in which proposed contingency costs of \$256 Million were questioned as unsupported. In addition, proposed costs for two of these pre-FY 2015 proposal cost audits, of approximately \$778 million, were determined to be not acceptable as a basis for negotiating a fair and reasonable price.

In some of these reports, DCAA also noted the following additional deficiencies, which continued to exist into FY 2015:

- a) Awardees could draw down contingency funds without advance approval by NSF, and
- b) Awardees' accounting systems and estimating practices were not sufficient to adequately track specific project costs.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

- 2) OIG issued Alert Memos in FY 2012 & 2014 that:
 - a) Reiterated concerns about the adequacy of NSF's review of proposed costs, the proposer's financial management capabilities, and NSF's post-award monitoring.
 - b) Concluded that NSF approved an award for a project projected to cost \$468 million without sufficient information to determine the reasonableness of the proposed costs. The OIG also indicated that the non-profit organization managing this project did not have an effective process for preparing adequate cost proposals

- 3) A DCAA incurred cost audit completed in FY 2013 noted that contingency costs were not separately accumulated and tracked in the awardees accounting records. Accordingly, the specific use of \$44 million in budgeted contingency costs expended could not be identified.

B. The following sections describe conditions, identified by both us and the OIG in FY 2015, that continue to demonstrate that the CA control deficiencies reported in prior years continue to exist.

DCAA and OIG Audits of Construction Type CAs with Contingency Funds

- 1) OIG Audit Report No. 15-3-001, dated September 15, 2015 – Beginning in FY 2011, an award was made and amendments were issued to one awardee with aggregate projected funding of \$433 million, of which approximately \$74 million was set aside for contingencies. The OIG performed previous audits on the cumulative award in FYs 2011, 2012 and early FY 2015. The audit identified significant problems with the awardee's cost proposal, which warranted enhanced monitoring of the project's expenditures. This enhanced monitoring did not occur.

The award required NSF's approval before the awardee used any contingency funds; however, the awardee was executing against a revised project plan that incorporated \$35 million of budget contingency into the performance measurement baseline without prior formal NSF approval.

The audit report also noted that during an NSF site visit in June 2015, the awardee informed NSF that, based on the stage of completion of the project, a cost overrun of \$27 million was likely. However, after further inquiries by NSF the awardee revised its cost overrun estimate to \$80 million.

Accordingly, due to the potential cost overrun, the awardee was required to de-scope the project, which included decreasing the number of re-locatable and experimental sites from 106 to 82, decreasing instrumentation and removing an experimental component of the project. As a result, taxpayers will not receive all the originally planned scientific benefits of the project.

Finally, the OIG also concluded that NSF had yet to determine if the awardee actually spent any of the \$35 million contingency budget allocation in advance of NSF approval, of the aforementioned total \$74 million that was budgeted for contingency.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

- 2) The NSF OIG issued four other reports in FY 2015 (audits performed directly by the OIG or on its behalf by DCAA) relating to CAs with Contingency Funds. These reports individually or collectively noted that:
 - a) The auditor was unable to determine if an awardee's accounting system was in compliance with terms of the grant agreement due to a scope limitation. The auditor was unable to determine the amount of contingency funds from August 2011 to March 2013 that may have been used for unapproved scope changes.
 - b) NSF needs to improve safeguards and accountability over significant contingency funds. Also, NSF lacked a sound basis to determine the appropriate level of contingency funding that should be included in the award budgets, which could lead to significant overfunding of the grant project.
 - c) Grant agreement terms did not require the awardee to track the actual use of contingency expenditures.
 - d) There was no accountability over the contingency funds, either at the expenditure phase or at the estimating phase. Thus comparing contingency estimates to actual expenditures is not possible.
 - e) Actual use of budgeted contingency differed significantly from what was requested and from what NSF approved in six of the seven cases reviewed. Accordingly, the auditor concluded that NSF would have been unable to determine if an awardee was properly accounting for contingency or if contingency funds were used without approval for unauthorized purposes such as cost overruns, scope increases, or other unauthorized use.

C. Internal Controls for Monitoring Use of Contingency Funds

In addition to the DCAA and OIG audits discussed above, our specific internal control testing procedures performed in FY 2015, which included the examination of several CAs with contingency funds, noted the following exceptions:

- 1) Awardees can draw on the contingency funds budget without prior NSF approval, if the amount is below an established threshold. Above this established threshold, advance approval is required. However, systematic barriers to prevent an awardee from drawing an amount in excess of the threshold without advance approval were not in place at September 30, 2015.
- 2) NSF's accounting system shows the CA award amount in total without separate identification of the contingency funding portion of such award. NSF relies on information provided by the awardees to track the allocation of the contingency funds to budgeted line items in the award. However, NSF does not require the awardee to track its contingency expenditures within its accounting system and, accordingly, it cannot track the expenditure of contingency funds to ensure that they are in line with the awarded budget amounts and are not used for unallowable purposes.
- 3) In four of five CAs reviewed, NSF could not provide award documentation, or proposal documentation referred to in the award document, identifying the total approved contingency budget. This could become a liability issue if both parties have not formally agreed upon the contingency funding amount for the project.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

- 4) In three of five change orders reviewed, the Risk ID was not indicated on the change request, or the Risk ID was not supported by the Risk Register. The Risk ID is a unique identifier applied to each risk identified as important to achieving project success. The Risk Register is used to track and monitor those project risks. The Risk ID is used to indicate what risk is being addressed with the allocated contingency funds. The absence of a valid Risk ID could result in contingency funding being used to address cost overruns that were not identified as part of the contingency budget process.
- 5) In two of the five change orders reviewed, contingency usage by award was not being tracked within the change order. As a result, funding restrictions may not be adhered to by the awardee (i.e., ARRA funding) and contingency may not be applied appropriately between funding sources.
- 6) In two of the five change orders reviewed, there was no NSF approval of the change order which exceeded the threshold amount requiring NSF approval. As a result, contingency funding could have been used to address cost overruns that had not been identified in the contingency budget process.
- 7) In one of the five change orders reviewed, we determined that NSF was documenting scope changes between awards supporting the project using the change request process for contingency instead of a formal amendment to the awards. As a result, the ARRA funding from one of the awards could have been used for work that may not have been appropriate under the ARRA requirements.

In summary, the causes of the remaining prior year conditions described in Section A of this Significant Deficiency continue to exist through September 30, 2015, because NSF's corrective actions were not adequate, not fully implemented, or will be implemented only for new CAs. The ongoing weaknesses identified by the OIG and DCAA, and the results of our internal control testing in FY 2015, continue to indicate that there are significant risks relating to contingency funds in all CAs, and NSF's controls over monitoring these CAs in general need improvement.

Recommendations:

Even though progress continues to be made in the monitoring of its Cooperative Agreements, we recommend that NSF take the following actions to rectify the remaining CA audit findings:

- 1) NSF's Office of the Director should continue to work closely with the OIG to ensure that corrective action plans addressing the OIG's May 2014 Escalation Memorandum have been completed and fully implemented.
- 2) NSF Office of the Director should formally address the issue regarding the unsupported contingency costs that were identified within the prior year audits through the audit follow-up process required by OMB Circular A-50, *Audit Follow-up*.
- 3) NSF should submit a formal request to OMB to deviate from the basic principles in 2 CFR Part 200, to allow NSF to require awardees to track the use of contingency funds within their own accounting systems, and for NSF to identify contingency funding

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

September 30, 2015

awarded within its accounting system. This deviation would have to receive formal approval from OMB before being implemented within 2 CFR Chapter XXV-National Science Foundation Part 2500.100 Adoption of 2 CFR Part 200. This tracking process, along with implementing recommendation number 4 below, would allow NSF to better monitor awardee's spending of contingency funds.

- 4) If approval from OMB regarding the third recommendation is received, NSF should take appropriate steps to ensure that contingency funding for all awards is accounted for separately within NSF's accounting system and that system edits are established to ensure that NSF approval for the use of contingency funding in excess of the established dollar threshold indicated within the CA is obtained.
- 5) NSF should establish procedures to ensure that all current awardees are following change order request requirements as indicated in NSF's Large Facility Manual.
- 6) NSF should revise its internal control guidance to require that WBS elements of the project are identified in the award document for restrictive funds, such as ARRA, so that such funds are used pursuant to the terms of the grant award.
- 7) NSF should revise its Large Facility Manual to require awardees to separately track and account for the allocation of contingency funds from each award that supports the project through the change order request process.
- 8) NSF should review the ARRA change requests for the project in question to determine if ARRA funds were used for appropriate costs for that project, and issue an appropriate amendment for the award with the ARRA funding to ensure that the WBS elements are clearly identified.
- 9) NSF should review all current CAs with contingency funding to identify those in which the contingency funding is not specifically identified within the award document. Such CAs should be amended to indicate approved contingency funding for that project.
- 10) The NSF's Office of the Director should work closely with the OIG to quickly address recommendations in the FY 2014 and FY 2015 OIG Audit Reports No. 14-3-002, 15-6-001, 15-1-002, 15-3-001 and 15-6-004 through the audit follow-up process required under OMB Circular A-50 *Audit Follow-up*.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT B

Noncompliance With Laws & Regulations

September 30, 2015

Non-Compliance with the Improper Payments Elimination and Recovery Act (IPERA) Reporting Requirements in Fiscal Year 2014 Agency Financial Report

Background

NSF's Office of Inspector General (OIG) contracted with an external audit firm to conduct an audit to review the improper payment reporting in NSF's FY 2014 Agency Financial Report (AFR) and accompanying materials to determine whether the agency met the Office of Management and Budget (OMB)'s criteria for compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law 111-204. As part of the auditor's compliance review of NSF's improper payment reporting, they evaluated the accuracy and completeness of agency reporting and efforts performed in reducing and recapturing improper payments.

OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, states that compliance under IPERA means that the agency has:

- 1) Published an AFR or Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
- 2) Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).
- 3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- 4) Published programmatic corrective action plans in the AFR or PAR (if required).
- 5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- 6) Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

Conditions

The auditors noted that NSF did not comply with two of the applicable OMB criteria. Specifically, the auditors found that NSF's AFR for FY 2014 was not complete and reported in accordance with OMB A-136, *Financial Reporting Requirements*, Section II.5.8, *V. Recapture of Improper Payments Reporting*, paragraph d., which states, "As applicable, agencies should also report on improper payments identified and recovered through sources other than payment recapture audits." NSF did not report on improper payments identified and recovered through sources other than payment recapture audits.

The auditor's also found that NSF had conducted a program-specific risk assessment; however, the risk assessment did not use a systematic method and did not evaluate all required risk factors. NSF did not maintain evidence of the evaluation and conclusions

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT B

Non-Compliance with Laws & Regulations

September 30, 2015

reached for all of the required risk factors and failed to follow a systematic approach in executing its qualitative and quantitative risk assessment.

Because NSF did not implement a complete, accurate, and systematic method to identify programs that are susceptible to significant improper payments, the auditors were unable to conclude whether NSF met the remaining four IPERA compliance requirements.

For the two requirements where the auditors determined NSF was not compliant, they recommended that NSF take appropriate action to: (1) improve compliance with IPERA by executing a full, statistically valid estimate of improper payments to adequately assess the risk of improper payments as defined by the OMB, and (2) report additional improper payment identification and recapture details in future AFRs.

In FY 2015, NSF updated its 2014 IPERA risk assessment report and indicated that it completed follow-up activities for cooperative agreements and graduate research fellowship grants. We noted that for FY 2015, NSF did report on overpayments recaptured outside of payment recapture audits in the AFR to address the second recommendation. Based on a consensus reached with the OMB and the OIG on an alternative action to the first recommendation, NSF agreed to complete a qualitative IPERA risk assessment for FY 2015 to determine its susceptibility to significant improper payments in FY 2016.

Recommendation:

We recommend that NSF's Office of Budget, Finance, and Award Management complete the qualitative risk assessment required by IPERA for FY 2015.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT C
Status of Prior Year Significant Deficiencies
September 30, 2015

Even though progress has been made in FY 2015 relating to the FY 2014 significant deficiency *Monitoring of Construction Type Cooperative Agreements*, certain conditions previously noted continue to exist and are discussed in **Exhibit A**.

Significant progress was made in FY 2015 by NSF in addressing the FY2014 significant deficiency condition relating to NSF's *Grant Accrual Accounting Estimation Process*. Accordingly, this matter is no longer considered a significant deficiency. Our assessment of each specific control recommendation relating to that control deficiency is presented below:

<i>FY 2014 Recommendation</i>	<i>Fiscal Year 2015 Status</i>
1) Provide grantees with additional training/ communication/ enforcement of the ACM\$ program's "real time" draw of funds features, so that more consistent and reliable grantee spending pattern data can be obtained from the grantees over a period of several years.	Throughout the fiscal year, NSF held grantee outreach programs that included training and communication on ACM\$'s drawdown features, webinars on cash management, and the NSF Grants Conference.
2) Using the historical grantee spending pattern data, establish a new methodology to estimate the IBNR liability portion of NSF's annual grant cost, for use at June 30 th and September 30 th of the fiscal year.	NSF developed a new grant accrual methodology utilizing a linear regression model (LRM) that uses historical data and current grant activity.
3) Prior to developing sufficient reliable historical grantee spending pattern data, develop a plan to use statistically based analyses, and confirmation procedures with its grantees, to calculate an IBNR liability at some point during the fiscal year.	NSF completed a statistically based analysis of NSF's IBNR liability estimation process (LRM) with its grantees at June 30, 2015, the results of which substantially validated the reasonableness of NSF's new process. NSF plans to continue to fine tune its LRM estimation tool using current grantee spending data, and validate its results periodically in future periods.
4) Develop procedures to validate the final determined IBNR liability estimate at June 30 th and/or September 30 th , as necessary to comply with TR 12, to ensure that assumptions used in the methodology to estimate the IBNR liability are reasonable. This could be accomplished by periodically comparing the IBNR liability estimates with subsequent grantee reporting in ACM\$, surveys, or some other communication with its grantees.	

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT D

Management's Response

September 30, 2015



OFFICE OF BUDGET, FINANCE & AWARD MANAGEMENT

MEMORANDUM

Date: NOV 12 2015

To: Allison Lerner, Inspector General

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

Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2015

We reviewed the draft Independent Auditor's Report on the NSF's fiscal year (FY) 2015 financial statements. I am proud that NSF received its 18th consecutive unmodified audit opinion on its financial statements. The Agency had no material weaknesses and the auditors closed a prior year significant deficiency related to our grant accrual accounting estimation process.

I appreciate the NSF's staff strong contributions and commitment to continuously improving the operations and internal control environment of the Agency. I also want to thank your staff and your audit contractor for their cooperation and professionalism during the course of the audit.

During FY 2015 NSF reached a major milestone in the resolution process of the longstanding significant deficiency on monitoring of construction-type cooperative agreements. Specifically, we believe that NSF reached agreement with its Office of Inspector General (OIG) on several of the FY 2014 recommendations in a combination of audit reports and memoranda that the OIG and its audit contractors have prepared, which make-up the significant deficiency.

The NSF Audit Follow-up Official (AFO) reached a decision on how to address recommendations that the OIG escalated related to the significant deficiency in the FY 2014 financial statement audit report. NSF management and OIG accepted the decision. This acceptance is the basis for the many enhancements that NSF has made to its policies and procedures.

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT D

Management's Response

September 30, 2015

NSF is dedicated to strengthening its controls for awarding and managing construction type cooperative agreements and we look forward to the FY 2016 audit of our implementation of these corrective actions.

The AFO's decision resolved (in accordance with the Office of Management and Budget Circular A-50 "Audit Follow-up") the matters repeated in Recommendations 2 through 4 in the FY 2015 financial statement audit report related to unsupported contingency costs and the tracking of contingency funds. With respect to Recommendations 5, 6 and 8, NSF has improved its policies and procedures to address these recommendations and the OIG is in process of examining our actions. As to the remaining recommendations, the Agency is working on taking steps to address them as well. Regarding Recommendation 10, three of the five audit reports cited were issued in September 2015 and NSF could not address them during this audit period.

NSF has taken numerous actions and is following steps to address all the recommendations in the FY 2015 financial statement audit report. We also reached consensus with the OIG on how to address compliance with the reporting requirements of the Improper Payments Elimination and Recovery Act, as amended, for FY 2015. We will be undertaking a qualitative risk assessment of improper payments for FY 2015.

We expect that management and the OIG will continue to work cooperatively through the audit resolution process and the resulting decisions. If you have any questions concerning our response, please contact me at (703) 292-8200 or John Lyskey, Acting Deputy Chief Financial Officer at (703) 292-8280.



National Science Foundation

FINANCIAL STATEMENTS

As of and for the Years Ended
September 30, 2015 and 2014

National Science Foundation
Balance Sheet
As of September 30, 2015 and 2014
(Amounts in Thousands)

Assets	<u>2015</u>	<u>2014</u>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 12,318,849	\$ 11,780,549
Accounts Receivable	9,667	2,222
Advances	62,273	36,987
Total Intragovernmental Assets	<u>12,390,789</u>	<u>11,819,758</u>
Cash and Other Monetary Assets (Note 2)	50,520	35,562
Accounts Receivable, Net	1,909	2,184
Advances	-	514
General Property, Plant and Equipment, Net (Notes 3 and 4)	281,450	273,832
Total Assets	<u>\$ 12,724,668</u>	<u>\$ 12,131,850</u>
Liabilities		
Intragovernmental Liabilities		
Advances From Others	\$ 10,096	\$ 16,594
Other Intragovernmental Liabilities	6,707	8,282
Total Intragovernmental Liabilities	<u>16,803</u>	<u>24,876</u>
Accounts Payable	118,198	62,443
FECA Employee Benefits	1,215	1,330
Environmental and Disposal Liabilities (Note 6)	18,247	18,247
Accrued Liabilities - Grants (Note 7)	340,877	250,333
Accrued Liabilities - Payroll and Other	6,087	5,454
Accrued Annual Leave	17,382	17,576
Total Liabilities	<u>\$ 518,809</u>	<u>\$ 380,259</u>
Net Position		
Unexpended Appropriations - Other Funds	\$ 11,427,234	\$ 11,057,969
Cumulative Results of Operations - Other Funds	308,703	289,423
Cumulative Results of Operations - Dedicated Collections (Note 8)	469,922	404,199
Total Net Position	<u>12,205,859</u>	<u>11,751,591</u>
Total Liabilities and Net Position	<u>\$ 12,724,668</u>	<u>\$ 12,131,850</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Net Cost
For the Years Ended September 30, 2015 and 2014
(Amounts in Thousands)

Program Costs (Note 9)	<u>2015</u>	<u>2014</u>
Research and Related Activities		
Gross Costs	\$ 5,905,726	\$ 6,050,953
Less: Earned Revenues	<u>(129,829)</u>	<u>(100,782)</u>
Net Research and Related Activities	<u>5,775,897</u>	<u>5,950,171</u>
Education and Human Resources		
Gross Costs	\$ 842,079	\$ 877,314
Less: Earned Revenues	<u>(6,320)</u>	<u>(3,616)</u>
Net Education and Human Resources	<u>835,759</u>	<u>873,698</u>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 264,161	\$ 292,661
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Major Research Equipment and Facilities Construction	<u>264,161</u>	<u>292,661</u>
Donations and Dedicated Collections		
Gross Costs	\$ 104,527	\$ 140,121
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Donations and Dedicated Collections	<u>104,527</u>	<u>140,121</u>
Net Cost of Operations (Notes 9 and 15)	<u>\$ 6,980,344</u>	<u>\$ 7,256,651</u>

The accompanying notes are an integral part of these statements.

Financial Statements
September 30, 2015 and 2014

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2015
(Amounts in Thousands)

	2015		
	Funds From	All Other	Total
	Dedicated Collections	All Other	Total
Cumulative Results of Operations			
Beginning Balances (Note 8)	\$ 404,199	289,423	693,622
Budgetary Financing Sources			
Appropriations Used	-	6,880,952	6,880,952
Non-exchange Revenue	-	78	78
Donations	-	34,787	34,787
Appropriated Funds from Dedicated Collections Transferred In / (Out) (Note 8)	142,999	-	142,999
Other Financing Sources			
Imputed Financing From Costs Absorbed By Others	-	9,133	9,133
Other	-	(2,602)	(2,602)
Total Financing Sources	142,999	6,922,348	7,065,347
Net Cost of Operations (Notes 8 and 9)	(77,276)	(6,903,068)	(6,980,344)
Cumulative Results of Operations (Note 8)	\$ 469,922	308,703	778,625
 Unexpended Appropriations			
Beginning Balances	\$ -	11,057,969	11,057,969
Budgetary Financing Sources			
Appropriations Received	-	7,344,205	7,344,205
Cancelled Authority Adjustments	-	(93,988)	(93,988)
Appropriations Used	-	(6,880,952)	(6,880,952)
Total Budgetary Financing Sources	-	369,265	369,265
Total Unexpended Appropriations	-	11,427,234	11,427,234
 Net Position	\$ 469,922	11,735,937	12,205,859

The accompanying notes are an integral part of these statements.

Financial Statements
September 30, 2015 and 2014

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

	2014		
	Funds From	All Other	Total
	Dedicated Collections	All Other	Total
Cumulative Results of Operations			
Beginning Balance (Note 8)	\$ 368,680	294,224	662,904
Budgetary Financing Sources			
Appropriations Used	-	7,115,793	7,115,793
Non-exchange Revenue	-	1,455	1,455
Donations	-	32,453	32,453
Appropriated Funds from Dedicated Collections Transferred In / (Out) (Note 8)	128,053	-	128,053
Other Financing Sources			
Imputed Financing From Costs Absorbed By Others	-	11,172	11,172
Other	-	(1,557)	(1,557)
Total Financing Sources	128,053	7,159,316	7,287,369
Net Cost of Operations (Notes 8 and 9)	(92,534)	(7,164,117)	(7,256,651)
Cumulative Results of Operations (Note 8)	\$ 404,199	289,423	693,622
 Unexpended Appropriations			
Beginning Balances	\$ -	11,047,853	11,047,853
Budgetary Financing Sources			
Appropriations Received	-	7,171,918	7,171,918
Cancelled Authority Adjustments	-	(46,009)	(46,009)
Appropriations Used	-	(7,115,793)	(7,115,793)
Total Budgetary Financing Sources	-	10,116	10,116
Total Unexpended Appropriations	-	11,057,969	11,057,969
 Net Position	\$ 404,199	11,347,392	11,751,591

The accompanying notes are an integral part of these statements.

Financial Statements
September 30, 2015 and 2014

National Science Foundation
Statement of Budgetary Resources
For the Years Ended September 30, 2015 and 2014
(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
Budgetary Resources		
Unobligated Balance - Brought Forward, October 1	\$ 393,733	\$ 293,444
Recoveries of Prior Year Unpaid Obligations	218,337	119,284
Other Changes in Unobligated Balance	(93,989)	(46,009)
Unobligated Balance from Prior Year Budget Authority, Net	<u>518,081</u>	<u>366,719</u>
Appropriations	7,522,070	7,332,495
Spending Authority from Offsetting Collections	104,266	101,721
Total Budgetary Resources (Note 12)	\$ <u>8,144,417</u>	\$ <u>7,800,935</u>
Status of Budgetary Resources		
Obligations Incurred (Notes 11 & 12)	\$ 7,749,890	\$ 7,407,202
Unobligated Balance, End of Year		
Apportioned (Note 2)	223,723	195,670
Unapportioned (Notes 2 & 12)	<u>170,804</u>	<u>198,063</u>
Total Unobligated Balance, End of Year	<u>394,527</u>	<u>393,733</u>
Total Status of Budgetary Resources	\$ <u>8,144,417</u>	\$ <u>7,800,935</u>
Change in Obligated Balance		
Unpaid Obligations		
Unpaid Obligations - Brought Forward, October 1	\$ 11,544,639	\$ 11,471,269
Obligations Incurred	7,749,890	7,407,202
Gross Outlays	(6,997,643)	(7,214,548)
Recoveries of Prior Year Unpaid Obligations	<u>(218,337)</u>	<u>(119,284)</u>
Unpaid Obligations, End of Year	12,078,549	11,544,639
Uncollected Payments		
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (122,935)	\$ (146,502)
Change in Uncollected Payments from Federal Sources	<u>18,979</u>	<u>23,567</u>
Uncollected Payments from Federal Sources, End of Year	(103,956)	(122,935)
Memorandum (non-add) Entries		
Obligated Balance, Start of Year	\$ 11,421,704	\$ 11,324,767
Obligated Balance, End of Year (Note 2)	\$ 11,974,593	\$ 11,421,704
Budget Authority and Outlays, Net		
Budget Authority, Gross	\$ 7,626,336	\$ 7,434,216
Actual Offsetting Collections	(123,245)	(125,288)
Change in Uncollected Customer Payments from Federal Sources	18,979	23,567
Budget Authority, Net	\$ <u>7,522,070</u>	\$ <u>7,332,495</u>
Gross Outlays	\$ 6,997,643	\$ 7,214,548
Actual Offsetting Collections	<u>(123,245)</u>	<u>(125,288)</u>
Net Outlays	6,874,398	7,089,260
Distributed Offsetting Receipts (Note 12)	<u>(37,834)</u>	<u>(35,105)</u>
Net Agency Outlays	\$ <u>6,836,564</u>	\$ <u>7,054,155</u>

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. While the statements have been prepared from the books and records of NSF in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

C. Basis of Accounting

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

D. Revenues and Other Financing Sources

NSF traditionally receives the majority of its funding through appropriations contained in the Commerce, Justice, Science, and Related Agencies Appropriations Act. NSF receives annual, multi-year, and no-year appropriations that may be expended within statutory limits. NSF also receives funding via warrant from a receipt account for dedicated collections that is reported as H-1B Non-immigrant Petitioner Fees Account (H-1B) funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies as well as from receipts to the NSF *Donations Account*. Also, NSF receives interest earned on overdue receivables and excess cash advances to grantees. The interest earned on overdue receivables and excess cash advances to grantees is returned to Treasury at the end of each fiscal year.

In FY 2015, The Science Appropriation Act, 2015 under Public Law 113-235 provided funding for each of NSF's appropriations. In addition, the Act provided an administrative provision allowing NSF to transfer up to five percent of current year funding between appropriations. Appropriations are recognized as a financing source at the time the related "funded" program or administrative expenditures are incurred. Appropriations are also recognized when used to purchase property, plant and equipment. "Unfunded" liabilities result from liabilities not covered by budgetary resources and will be paid when future appropriations are made available for these purposes. Donations are recognized as revenues when funds are received. Revenues from reimbursable agreements are recognized when the services are provided and the related expenditures are incurred. Reimbursable agreements are mainly for grant administrative services provided by NSF on behalf of other federal agencies.

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

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

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

F. Accounts Receivable, Net

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

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

G. Advances

Advances consist of advances to federal agencies which are issued when agencies are operating under working capital funds or are unable to incur costs on a reimbursable basis. Advances are reduced when documentation supporting expenditures is received and recorded. Additionally, some NSF grantees receive advanced funds prior to incurring expenses. Payments are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Grant advances are presented net of grant liabilities on NSF's Balance Sheet.

H. General Property, Plant and Equipment

NSF capitalizes PP&E with costs exceeding \$25.0 thousand and useful lives of two or more years; items not meeting these criteria are recorded as operating expenses. NSF currently reports capitalized PP&E at original acquisition cost; assets acquired from the General Services Administration (GSA) excess property schedules are recorded at the value assigned by the donating agency; assets transferred in from other agencies are valued at the cost recorded by the transferring entity for the asset net of accumulated depreciation or amortization.

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

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

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

Equipment

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

Aircraft and Satellites

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

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

Leases and Leasehold Improvements

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

Amortization is calculated using the straight-line half-year convention upon transfer from construction in progress.

Internal Use Software

NSF controls, values, and reports purchased or developed software as tangible property assets, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*. NSF identifies software investments as capital property for items that, in the aggregate, cost \$500.0 thousand or more to purchase, develop, enhance, or modify a new or existing NSF system, or configure a government-wide system for NSF needs. Software projects that are not completed at year end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight-line half-year convention.

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

In practice, NSF's ownership interest in such PP&E is similar to a reversionary interest. To address the accounting and reporting of these assets, specific guidance was sought by NSF and provided by the Federal Accounting Standards Advisory Board (FASAB). This guidance stipulates that NSF should: (i) disclose the value of such PP&E held by others in its financial statements based on information contained in the audited financial statements of these entities (if available); and (ii) report information on costs incurred to acquire the research facilities, equipment, and platforms in the Research and Human Capital Activity costs as required by the SFFAS No. 8, *Supplementary Stewardship Reporting*. Very few entities disclose information on NSF titled property in their audited financial statements. Therefore, NSF has elected to disclose only the number of entities in possession of NSF owned property. Entities that separately present the book value of NSF titled property in their audited financial statements and all FFRDCs are listed in Note 4, *General Property, Plant and Equipment in the Custody of Other Entities*, along with the book value of the property held.

I. Advances From Others

Advances From Others consist of amounts obligated and advanced by other federal entities to NSF for grant administration and other services to be furnished under reimbursable agreements.

J. Accounts Payable

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

K. Accrued Liabilities – Grants

NSF utilizes the Award Cash Management Service (ACM\$), a grantee cash request and expenditure reporting system. The implementation of ACM\$ required a modification of NSF's grant accrual methodology. NSF continued to update its grant accrual methodology as new ACM\$ and grantee financial information became available in FY 2015. Note 7, *Accrued Liabilities - Grants* provides additional information on the grant accrual amounts at September 30th.

L. Accrued Liabilities – Payroll and Other

Accrued Liabilities – Payroll and Other consist of accrued payroll and undeposited collections. NSF's payroll services are provided by the Department of the Interior's Interior Business Center. Accrued payroll relates to services rendered by NSF employees, for which they have not yet been paid. At year end, NSF accrues the amount of wages earned, but not yet paid. Undeposited collections are funds received by NSF, but not remitted to Treasury prior to September 30.

M. Employee Benefits

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

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

N. Net Position

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

O. Retirement Plan

In FY 2015, approximately 8 percent of NSF employees participated in the Civil Service Retirement System (CSRS), to which NSF matches contributions equal to 7 percent of pay. The majority of NSF employees are covered by the Federal Employees Retirement System (FERS) and Social Security. A primary feature of FERS is a thrift savings plan to which NSF automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent of pay. NSF also contributes the employer's matching share for Social Security for FERS participants.

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

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

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information is also provided by OPM regarding the full cost of health and life insurance benefits on the OPM Benefit Administration Website: <https://www.opm.gov/retirement-services/publications-forms/benefits-administration-letters/2015/15-101.pdf>

P. Contingencies and Possible Future Costs

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

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

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

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

Agreements with FFRDCs include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event a facility is terminated. NSF considers termination of these facilities only remotely possible. Should a facility be terminated, NSF is obligated to pay termination expenses for FFRDCs in excess of the limitation of funds set forth in the agreements, including any Post Retirement

Benefit liabilities, only if funds are appropriated for this specific purpose. Nothing in these agreements can be construed as implying that Congress will appropriate funds to meet the terms of any claims. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the facility is terminated.

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

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

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

Q. Use of Estimates

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

Note 2. Fund Balance With Treasury

Fund Balance with Treasury (FBWT) consisted of the following components as of September 30, 2015 and 2014:

(Amounts in Thousands)	2015			
	Appropriated Funds	Donated Funds	Funds from Dedicated Collections	Total
Obligated	\$ 11,571,214	\$ 35,655	\$ 367,724	\$ 11,974,593
Unobligated Available	85,694	27,561	110,468	223,723
Unobligated Unavailable	163,696	1,557	5,551	170,804
				-
Less: Cash and Other Monetary Assets	(249)	(50,271)	-	(50,520)
Add: Undeposited Collections	249	-	-	249
Total FBWT	\$ 11,820,604	\$ 14,502	\$ 483,743	\$ 12,318,849

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

The NSF *Donations Account* includes amounts donated to NSF from all sources. Funds in the NSF *Donations Account* may be used to further one or more of the general purposes of the Foundation. The donated funds are reported as FBWT or as *Cash and Other Monetary Assets*. Donations reported as *Cash and Other Monetary Assets* represent cash held outside of Treasury at commercial banks in interest bearing accounts. These funds are collateralized up to \$49.0 million by the bank, through the Federal Reserve Bank of St. Louis, in accordance with Treasury Financial Manual Volume 1, Chapter 6-9000. Undeposited collections are funds received by NSF, but not remitted to Treasury prior to September 30. *Unobligated Unavailable* balances include recoveries of prior year obligations and other unobligated expired funds that are unavailable for new obligations.

In FY 1999, in accordance with P.L. 105-277, a special fund named H-1B was established in the General Fund of the U.S. Treasury. These funds are considered Funds from Dedicated Collections and are not included in Appropriated Funds. The funds represent fees collected for each petition for non-immigrant status. Under the law, NSF was prescribed a percentage of these fees for specific programs.

Note 3. General Property, Plant and Equipment, Net

The components of *General Property, Plant, and Equipment* as of September 30, 2015 and 2014 were:

(Amounts in Thousands)	2015		
	Acquisition	Accumulated	Net Book Value
	Cost	Depreciation	
Equipment	\$ 155,764	\$ (133,030)	\$ 22,734
Aircraft and Satellites	138,487	(138,487)	-
Buildings and Structures	319,207	(132,426)	186,781
Leasehold Improvements	11,705	(11,162)	543
Construction in Progress	1,186	-	1,186
Internal Use Software	76,900	(31,372)	45,528
Software in Development	24,678	-	24,678
Total PP&E	\$ 727,927	\$ (446,477)	\$ 281,450

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

NSF's new core financial system, iTRAK, was placed into service in October 2014.

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

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

As of September 30, 2015, there were 42 colleges or universities, and 39 commercial entities that held property titled to NSF. With the exception of the FFRDCs listed below, none of the colleges, universities or commercial entities reported NSF titled property separately.

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

(Amounts in Thousands)

<u>Federally Funded Research and Development Centers</u>	<u>Amount</u>	<u>Fiscal Year</u> <u>Ending</u>
University Corporation for Atmospheric Research - UCAR	\$206,631	9/30
Association of Universities for Research in Astronomy, Inc. - AURA	N/A	9/30
National Radio Astronomy Observatory - AUI	\$561,339	9/30

Note 5. Leases

NSF leases its Headquarter building under an operating lease with GSA. The cancellation clause within the agreement allows NSF to terminate use with a 120-day notice. In FY 2015, NSF signed a lease, beginning in FY 2017, for the new Headquarter building in Alexandria, VA. The future payments for the new Headquarter building total \$372.3 million over the 15 year lease term. Additional information regarding the new lease can be found on NSF's website: http://www.nsf.gov/news/news_summ.jsp?cntn_id=128219.

The following is a schedule of future minimum lease payments for the current and future Headquarter buildings, warehouses, and office space in Denver, Colorado. The current leases are active through FY 2032.

(Amounts in Thousands)

<u>Fiscal Year</u>	<u>Building Operating</u> <u>Lease Amount</u>
2016	30,638
2017	31,585
2018	29,735
2019	24,750
2020	24,733
2021 and After	300,941
Total Minimum Lease Payments	\$ 442,382

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

Note 6. Environmental and Disposal Liability

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

Antarctic Support Contractor (ASC). The ASC supplied information was based on asbestos surveys conducted in 2006 and included updates for all abatements and encapsulations performed since that time. The liability incorporates the following estimates:

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

As required by SFFAS No. 6, *Accounting for Property, Plant and Equipment*, NSF works with the current ASC to determine the need for asbestos liability adjustments based on actual asbestos costs incurred on an annual basis. Actual asbestos remediation costs are submitted quarterly by the ASC and the asbestos liability is reduced by the reported amount. No asbestos remediation costs were incurred as of September 30, 2015 and the balance remains \$18.2 million.

Note 7. Accrued Liabilities – Grants

Effective June 30, 2013 NSF fully implemented a grantee cash request and expenditure reporting system, ACM\$. ACM\$ enables all grantee institutions to request funds at the award level and on a more timely, project needs basis, thereby requiring NSF to modify its previous grant accrual estimation methodology. Since 2013, NSF has been actively collecting information from its grantees and in ACM\$ to develop a reliable approach for estimating grant expenses incurred but not reported (IBNR) to NSF.

In FY 2014, NSF requested a statistically based sample of grantees to report their cash on hand balances as of September 30, 2014. This approach was used to determine the amount of grantee expenses IBNR at September 30, 2014. In FY 2015, NSF developed a new grant accrual methodology utilizing a linear regression model based on the statistical correlation between prior year unliquidated obligations and prior year expenses IBNR.

At September 30, 2015 and 2014, the IBNR grant accrual was reported net of grant advances and amounted to \$340.9 million and \$250.3 million, respectively. The net liability reported in the FY 2015 and 2014 Balance Sheets was impacted by NSF's authorizations of grantees to draw beyond normal advance activity. In FY 2014 this authorization was provided to the entire ACM\$ grantee population; however, in FY 2015 select grantees were permitted to draw supplementary advances.

Note 8. Funds from Dedicated Collections

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

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

The H-1B Nonimmigrant Petitioner fees are available to the Director of NSF until expended. The funds may be used for scholarships to low income students, or to carry out a direct or matching grant program to support private and/or public partnerships in K-12 education. The H-1B Fund is set up as a permanent, indefinite appropriation by NSF. These funds are included in the President's budget. The funds from dedicated collections are accounted for in a separate Treasury Account Symbol (TAS), and the budgetary resources are recorded as *Appropriated Funds from Dedicated Collections Transferred In / Out*. Funds

Notes to the Financial Statements
September 30, 2015 and 2014

from Dedicated Collections are reported in accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. For the years ended September 30, 2015 and September 30, 2014, NSF was subject to H-1B sequestrations in the amount of \$7.3 million and \$9.5 million, respectively.

(Amounts in Thousands)	2015	2014
Balance Sheet as of September 30, 2015 and 2014		
Fund Balance With Treasury	\$ 483,743	\$ 411,293
Intragovernmental Advances	375	-
Total Assets	<u>484,118</u>	<u>411,293</u>
Other Intragovernmental Liabilities	137	-
Accounts Payable	3,241	176
Accrued Liabilities - Grants	10,818	6,918
Total Liabilities	<u>14,196</u>	<u>7,094</u>
Cumulative Results of Operations	469,922	404,199
Total Liabilities and Net Position	<u>\$ 484,118</u>	<u>\$ 411,293</u>

Statement of Net Cost for the Periods Ended September 30, 2015 and 2014

Program Costs	\$ 77,276	\$ 92,534
Net Cost of Operations	<u>\$ 77,276</u>	<u>\$ 92,534</u>

Statement of Changes in Net Position For the Periods Ended September 30, 2015 and 2014

Net Position Beginning of Period	\$ 404,199	\$ 368,680
Appropriated Dedicated Collection Transferred In / Out	142,999	128,053
Net Cost of Operation	<u>(77,276)</u>	<u>(92,534)</u>
Change in Net Position	65,723	35,519
Net Position End of Period	<u>\$ 469,922</u>	<u>\$ 404,199</u>

Note 9. Statement of Net Cost

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

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

society's general welfare. "Excel as a Federal Science Agency" emphasizes the importance to NSF of attaining excellence and inclusion in all operational aspects.

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

At September 30, 2015 approximately 95 percent of NSF's expenses amounting to \$6.8 billion were directly related to the "Transform the Frontiers of Science and Engineering" and "Stimulate Innovation and Address Societal Needs through Research and Education" strategic outcome goals. At September 30, 2014 approximately 96 percent of NSF's expenses amounting to \$7.1 billion were directly related to the "Transform the Frontiers of Science and Engineering" and "Stimulate Innovation and Address Societal Needs through Research and Education" strategic outcome goals. At September 30, 2015 and 2014, costs related to the stewardship activities totaled \$329.7 million and \$309.8 million, respectively.

In accordance with OMB Circular No. A-136, costs incurred for services provided by other federal entities are reported in the full costs of NSF programs and are separately identified in this note as "Federal." All earned revenues are offsetting collections provided through reimbursable agreements with other federal entities and are retained by NSF. Earned revenues are recognized when the related program or administrative expenses are incurred and are deducted from the full cost of the programs to arrive at the net cost of operating NSF's programs. NSF applies a cost recovery fee on other federal entities consistent with applicable legislation and U.S. 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 Financial Statements
September 30, 2015 and 2014

Intragovernmental and Public Costs and Earned Revenue by Program

(Amounts in Thousands)	2015		
	Federal	Public	Total
Research and Related Activities			
Gross Costs	\$ 209,657	\$ 5,696,069	\$ 5,905,726
Less: Earned Revenue	(127,447)	(2,382)	(129,829)
Net Research and Related Activities	82,210	5,693,687	5,775,897
Education and Human Resources			
Gross Costs	\$ 6,741	\$ 835,338	\$ 842,079
Less: Earned Revenue	(6,204)	(116)	(6,320)
Net Education and Human Resources	537	835,222	835,759
Major Research Equipment and Facilities Construction			
Gross Costs	\$ -	\$ 264,161	\$ 264,161
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	-	264,161	264,161
Donations and Dedicated Collections			
Gross Costs	\$ -	\$ 104,527	\$ 104,527
Less: Earned Revenue	-	-	-
Net Donations and Dedicated Collections	-	104,527	104,527
Net Cost of Operations	\$ 82,747	\$ 6,897,597	\$ 6,980,344

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

Note 10. Permanent Indefinite Appropriations

NSF maintains permanent indefinite appropriations for R&RA, MREFC, EHR, and AOAM. 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 2015 and 2014 the permanent indefinite appropriations for R&RA were \$437.8 million and \$435.9 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 2015 and 2014 the permanent indefinite appropriations for MREFC were \$200.8 million and \$200.0 million, respectively.

The EHR appropriation is used to support science and engineering education, and human resources programs and activities. In FY 2015 there were no permanent indefinite appropriations for EHR; however, in FY 2014, the permanent indefinite appropriation for EHR was \$60.9 million, and was reported as current year transfers from the annual EHR appropriation.

The AOAM appropriation is used to support Future NSF, a multi-year effort associated with NSF's upcoming Headquarter relocation. The permanent indefinite appropriation for AOAM was new in FY 2015 and amounted to \$18.1 million. It is reported as current year transfers from the annual AOAM appropriation.

Note 11. 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 2015 and 2014, 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, 2015 and 2014, direct obligations amounted to \$7.6 billion and \$7.3 billion, respectively, and reimbursable obligations amounted to \$126.0 million and \$103.6 million, respectively.

Note 12. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY 2015 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in the spring of FY 2016 and can be found on the OMB website: <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2014 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)	2014			
	Budgetary Resources	Obligations Incurred	Unobligated Balance - Unavailable	Distributed Offsetting Receipts
Combined Statement of Budgetary Resources	\$ 7,800,935	\$ 7,407,202	\$ 198,063	\$ 35,105
Budget of the U.S. Government	\$ 7,611,259	\$ 7,396,257	\$ 19,332	\$ 3,000
Difference	\$ 189,676	\$ 10,945	\$ 178,731	\$ 32,105

Note 13. 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, 2015 and 2014 amounted to \$11.7 billion and \$11.3 billion, respectively.

Note 14. Awards to Affiliated Institutions

NSB members may be affiliated with institutions that are eligible to receive grants and awards from NSF. NSF made awards totaling \$1.1 billion to board member affiliated institutions in FY 2015. The Board does not review all NSF award actions; however the following require NSB approval for the NSF Director to take action under delegated authority:

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

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

NSF may fund awards meeting the above requirements to institutions affiliated with board members. Federal conflict-of-interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the Designated Agency Ethics Official (DAEO). Prior to Board meetings, all NSB action items are screened for conflict-of-interest/impartiality concerns by the Office of the General Counsel. Members who have conflicts are either recused from the matter or receive a waiver from the DAEO to participate. In FY 2015, NSB did not approve any awards to board member affiliated institutions.

Note 15. Reconciliation of Net Cost of Operations to Budget

(Amounts in Thousands)	2015	2014
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 7,749,890	\$ 7,407,202
Less: Spending Authority from Offsetting Collections and Recoveries	(322,603)	(221,005)
Obligations Net of Offsetting Collections and Recoveries	7,427,287	7,186,197
Less: Offsetting Receipts	(37,834)	(35,105)
Net Obligations	7,389,453	7,151,092
Other Resources		
Imputed Financing	9,133	11,172
Other Resources	(2,602)	(1,557)
Net Other Resources Used to Finance Activities	6,531	9,615
Total Resources Used to Finance Activities	7,395,984	7,160,707
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	(445,362)	65,203
Resources that Fund Expenses Recognized in Prior Periods	(15)	323
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	37,834	35,105
Resources that Finance the Acquisition of Assets	(35,835)	(24,549)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(443,378)	76,082
Total Resources Used to Finance Net Cost of Operations	6,952,606	7,236,789
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	11	-
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	11	-
Components Not Requiring or Generating Resources		
Depreciation and Amortization	28,326	19,098
Other	(599)	764
Total Components of Net Cost of Operations that will not Require or Generate Resources	27,727	19,862
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	27,738	19,862
Net Cost of Operations	\$ 6,980,344	\$ 7,256,651

Required Supplementary Stewardship Information

Stewardship Investments

For the Years Ended September 30, 2015 and 2014

Required Supplementary Stewardship Information
September 30, 2015 and 2014

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

Research and Human Capital Activities

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Basic Research	\$ 5,202,144	\$ 5,383,795	\$ 5,446,790	\$ 5,590,843	\$ 5,401,356
Applied Research	782,986	726,087	588,261	532,729	404,596
Education and Training	801,678	941,330	861,871	991,543	1,115,680
Non-Investing Activities	329,685	309,837	327,357	333,712	337,170
Total Research & Human Capital Activities	<u>\$ 7,116,493</u>	<u>\$ 7,361,049</u>	<u>\$ 7,224,279</u>	<u>\$ 7,448,827</u>	<u>\$ 7,258,802</u>

Inputs, Outputs and/or Outcomes

Research and Human Capital Activities

Investments In:

Universities	\$ 5,201,477	\$ 5,407,717	\$ 5,025,068	\$ 5,445,926	\$ 5,192,332
Industry	365,221	286,916	337,818	280,452	350,115
Federal Agencies	167,018	252,596	208,806	264,846	195,652
Small Business	225,958	224,931	249,443	239,866	254,215
Federally Funded R&D Centers	231,813	234,515	280,032	229,474	231,234
Non-Profit Organizations	451,232	529,482	605,059	523,772	522,958
Other	473,774	424,892	518,053	464,491	512,296
	<u>\$ 7,116,493</u>	<u>\$ 7,361,049</u>	<u>\$ 7,224,279</u>	<u>\$ 7,448,827</u>	<u>\$ 7,258,802</u>

Support To:

Scientists	\$ 584,865	\$ 550,800	\$ 539,713	\$ 544,452	\$ 540,865
Postdoctoral Programs	203,128	190,188	190,564	192,863	196,071
Graduate Students	629,922	586,443	568,548	574,557	564,021
	<u>\$ 1,417,915</u>	<u>\$ 1,327,431</u>	<u>\$ 1,298,825</u>	<u>\$ 1,311,872</u>	<u>\$ 1,300,957</u>

Outputs & Outcomes:

Number of:

Award Actions	21,000	20,000	20,000	23,000	22,000
Senior Researchers	42,000	41,000	44,000	56,000	53,000
Other Professionals	14,000	17,000	14,000	14,000	14,000
Postdoctoral Associates	6,000	6,000	6,000	6,000	7,000
Graduate Students	42,000	40,000	42,000	42,000	40,000
Undergraduate Students	36,000	34,000	29,000	31,000	27,000
K-12 Students	172,000	130,000	124,000	125,000	86,000
K-12 Teachers	41,000	40,000	40,000	45,000	48,000

NSF's mission is to support basic scientific research and research fundamental to the engineering process as well as science and engineering education programs. NSF's Stewardship Investments fall principally into the categories of Research and Human Capital. For expenses incurred under the Research category, the majority of NSF funding is devoted to basic research, with a relatively small share going to applied research. This funding supports both the conduct of research and the necessary supporting infrastructure, including state-of-the-art instrumentation, equipment, computing resources, and multi-user facilities such as digital libraries, observatories, and research vessels and aircraft. Basic and applied research and education and training expenses are determined by prorating the program costs of NSF's R&RA, EHR, and MREFC appropriations, donations, and funds from dedicated collections reported on the Statement of Net Cost. The proration uses the basic and applied research and education and training percentages of total estimated research and development obligations reported in the FY 2016 Budget Request to Congress. The actual numbers are not available until later in the following fiscal year. Non-Investing activities reflect stewardship costs incurred from the AOAM, NSB and OIG appropriations.

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

NSF's Human Capital investments focus principally on education and training, toward a goal of creating a diverse, internationally competitive and globally engaged workforce of scientists, engineers and well-prepared citizens. NSF supports activities to improve formal and informal science, mathematics, engineering and technology education at all levels, as well as public science literacy projects that engage people of all ages in life-long learning. The number of K-12 students involved in NSF activities is based on a robust data collection and analysis process. The reported number of K-12 students and teachers in FY 2015 is an estimate and excludes data from the jurisdictions of Hawaii, Kansas, and West Virginia. Reporting from these jurisdictions is expected to be final by December 2015 and will be reflected in the FY 2017 Budget Request.

Required Supplementary Information

Deferred Maintenance and Repairs For the Years Ended September 30, 2015 and 2014

Deferred Maintenance and Repairs

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

NSF considered whether any scheduled maintenance or repair necessary to keep fixed assets of the agency in an acceptable condition was deferred at years ended September 30, 2015 and 2014. 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.

In accordance with SFFAS No. 42, NSF is disclosing the beginning and ending balances for the period ending September 30, 2015. At September 30, 2015, NSF determined that scheduled maintenance on one item of Antarctic capital equipment in very poor condition was not completed and was deferred or delayed for a future period. The dollar amount of deferred maintenance for this item was \$2.6 thousand. The item is light, mobile equipment and is considered critical to NSF operations.

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

Required Supplementary Information

Budgetary Resources by Major Budget Accounts

In the following tables, NSF budgetary information for the years ended September 30, 2015 and 2014 as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts.

Required Supplementary Information
September 30, 2015 and 2014

The Science Appropriations Act, 2015

2015

(Amounts in Thousands)

	<u>Research and Related Activities</u>	<u>Education and Human Resources</u>	<u>Major Research Equipment</u>	<u>OIG, AOAM, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 202,480	48,507	390	6,157	136,199	\$ 393,733
Recoveries of Prior Year Unpaid Obligations	174,987	29,285	-	9,197	4,868	218,337
Other Changes in Unobligated Balance	<u>(73,245)</u>	<u>(17,361)</u>	<u>-</u>	<u>(3,383)</u>	<u>-</u>	<u>(93,989)</u>
Unobligated Balance from Prior Year Budget Authority, Net	304,222	60,431	390	11,971	141,067	518,081
Appropriations	5,933,645	866,000	200,760	343,800	177,865	7,522,070
Spending Authority from Offsetting Collections	91,476	4,926	1,668	6,012	184	104,266
Total Budgetary Resources	\$ 6,329,343	931,357	202,818	361,783	319,116	\$ 8,144,417
Status of Budgetary Resources						
Obligations Incurred	\$ 6,198,748	894,365	144,760	338,038	173,979	\$ 7,749,890
Unobligated Balance, End of Year						
Apportioned	6,836	3,577	56,390	18,891	138,029	223,723
Unapportioned	<u>123,759</u>	<u>33,415</u>	<u>1,668</u>	<u>4,854</u>	<u>7,108</u>	<u>170,804</u>
Total Unobligated Balance, End of Year	<u>130,595</u>	<u>36,992</u>	<u>58,058</u>	<u>23,745</u>	<u>145,137</u>	<u>394,527</u>
Total Status of Budgetary Resources	\$ 6,329,343	931,357	202,818	361,783	319,116	\$ 8,144,417
Change in Obligated Balance						
Unpaid Obligations						
Unpaid Obligations - Brought Forward, October 1, Gross	\$ 9,173,916	1,667,606	287,357	87,747	328,013	\$ 11,544,639
Obligations Incurred	6,198,748	894,365	144,760	338,038	173,979	7,749,890
Gross Outlays	(5,525,888)	(796,135)	(257,709)	(324,166)	(93,745)	(6,997,643)
Recoveries of Prior Year Unpaid Obligations	<u>(174,987)</u>	<u>(29,285)</u>	<u>-</u>	<u>(9,197)</u>	<u>(4,868)</u>	<u>(218,337)</u>
Unpaid Obligations - End of Year, Gross	9,671,789	1,736,551	174,408	92,422	403,379	12,078,549
Uncollected Payments						
Uncollected Payments from Federal Sources - Brought Forward, October 1	\$ (116,508)	(6,195)	-	(232)	-	\$ (122,935)
Change in Uncollected Payments from Federal Sources	18,614	1,004	-	(639)	-	18,979
Uncollected Payments from Federal Sources, End of Year	<u>(97,894)</u>	<u>(5,191)</u>	<u>-</u>	<u>(871)</u>	<u>-</u>	<u>(103,956)</u>
Memorandum (non-add) Entries						
Obligated Balance - Start of Year	\$ 9,057,408	1,661,411	287,357	87,515	328,013	\$ 11,421,704
Obligated Balance - End of Year	\$ 9,573,895	1,731,360	174,408	91,551	403,379	\$ 11,974,593
Budget Authority, Gross						
Budget Authority, Gross	\$ 6,025,121	870,926	202,428	349,812	178,049	\$ 7,626,336
Actual Offsetting Collections	(110,090)	(5,930)	(1,668)	(5,373)	(184)	(123,245)
Change in Uncollected Customer Payments from Federal Sources	18,614	1,004	-	(639)	-	18,979
Budget Authority, Net	\$ 5,933,645	866,000	200,760	343,800	177,865	\$ 7,522,070
Gross Outlays						
Gross Outlays	\$ 5,525,888	796,135	257,709	324,166	93,745	\$ 6,997,643
Actual Offsetting Collections	(110,090)	(5,930)	(1,668)	(5,373)	(184)	(123,245)
Net Outlays	5,415,798	790,205	256,041	318,793	93,561	6,874,398
Distributed Offsetting Receipts	-	-	-	-	(37,834)	(37,834)
Net Agency Outlays	\$ 5,415,798	790,205	256,041	318,793	55,727	\$ 6,836,564

Required Supplementary Information
September 30, 2015 and 2014

The Science Appropriations Act, 2014

2014
(Amounts in Thousands)

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

Other Information

Combined Schedule of Spending

For the Years Ended September 30, 2015 and 2014

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

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

National Science Foundation
Combined Schedule of Spending
For the Year Ended September 30, 2015
(Amounts in Thousands)

What Money is Available to Spend?

Total Resources	\$ 8,144,417
Less Amount Available but Not Agreed to be Spent	223,723
Less Amount Not Available to be Spent	170,804
Total Amounts Agreed to be Spent	\$ 7,749,890

How Was the Money Spent/Issued?

	<u>Research and</u> <u>Related Activities</u>	<u>Education and</u> <u>Human</u> <u>Resources</u>	<u>Major</u> <u>Research</u> <u>Equipment</u>	<u>OIG, AOAM</u> <u>and NSB</u>	<u>Special and</u> <u>Donated</u>	<u>Total</u>
Compensation and Benefits	\$ 823	129	-	224,928	19	225,899
Travel and Transportation of Persons	15,694	1,685	-	6,167	314	23,860
Contracts	505,151	26,829	-	70,380	528	602,888
Rent, Communications, and Utilities	723	109	-	36,237	5	37,074
Grants, Subsidies and Contributions	5,676,275	865,598	144,760	159	173,095	6,859,887
Other	82	15	-	167	18	282
Total Amounts Agreed to be Spent	\$ 6,198,748	894,365	144,760	338,038	173,979	7,749,890

Who did the Money go to?

Universities	\$ 5,841,501
Industry	306,008
Federal Agencies	189,499
Small Business	254,382
FFRDC	260,766
Non- Profit	433,577
Other	464,157
Total Amounts Agreed to be Spent	\$ 7,749,890

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

What Money is Available to Spend?

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

How Was the Money Spent/Issued?

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

Who did the Money go to?

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

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

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

- USASpending.gov includes obligation information for contracts and grants, only. The SOS includes additional obligation information to include travel, employee salaries and benefits, and rent.
- USASpending.gov includes grant and contract data associated with specific Budget Object Classes. The SOS classifies a larger population of Budget Object Classes as a grant or contract.
- USASpending.gov excludes contracts where the total amount funded does not exceed \$25.0 thousand. The SOS includes all contracts, regardless of dollar value.
- USASpending.gov does not include awards made to other Federal agencies via Outgoing Interagency Agreements (IAA); whereas, the SOS includes these awards.
- The SOS includes accruals and other financial information applicable to, but posted subsequent to September 30, 2015 and 2014. USASpending.gov data is based on financial information that is included in the financial system on September 30.