



A MESSAGE FROM THE DIRECTOR

I am pleased to share with you the *Annual Financial Report (AFR)* of the National Science Foundation (NSF) for Fiscal Year (FY) 2007. This report focuses on the agency's financial condition, the results of the agency's financial audit, and compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

This year, NSF can once again report significant advances at the frontiers of knowledge while adhering to the highest standards of management efficiency and integrity. NSF is the only federal agency dedicated to the support of fundamental research across all fields of science and engineering and all levels of science and engineering education. In FY 2007, NSF received nearly 45,000 proposals and made 11,484 new awards to nearly 1,900 colleges, universities, and other public and private institutions throughout the country. The discoveries resulting from these investments in all fields of science and engineering research and education are both exciting and transformative, resulting in new discoveries and innovations that enable the United States to remain competitive in the global marketplace, sustain economic prosperity, protect the environment, maintain a high standard of living and ensure national security. As an example, in FY 2007, NSF-supported researchers reported the development of optical technology for detecting colon cancer that also holds promise for early detection of pancreatic cancer. At the University of South Florida and the University of Florida, NSF-supported researchers are discovering new ways to reduce Internet energy consumption that could potentially save hundreds of millions of dollars annually in the United States alone.

Underlying NSF's programmatic achievements is a commitment to effective and efficient management practices and sound financial oversight.

- NSF received its tenth consecutive unqualified "clean" audit opinion from an independent audit of its financial statements, with no material weaknesses reported.
- NSF is in substantial compliance with the Financial Managers' Financial Integrity Act of 1982, although a qualified management assurance over internal control is being reported because of the scope limitation of the internal review of financial reporting. The scope limitation is in line with the agency's three-year program to meet OMB requirements for agency internal control by the end of FY 2008.
- NSF maintained "Green" successful ratings in three of the five President's Management Agenda Initiatives.
- NSF achieved all three of its mission-related strategic outcome goals of *Discovery*, *Learning*, and *Research Infrastructure*, which together account for 94 percent of the Foundation's investment portfolio.

These accomplishments and others are more fully discussed in this report.

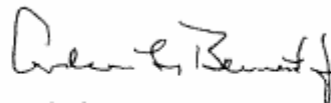
Looking ahead, NSF welcomes the potential opportunities brought by the President's American Competitiveness Initiative and the recently enacted America Competes Act. Both call for expanded federal investment to drive innovation and sharpen the Nation's competitive edge. NSF will direct its funding toward generating fundamental discoveries that produce valuable and marketable technologies; providing cutting edge infrastructure that will transform and enable discovery; and preparing the Nation's workforce with the science, technology, engineering, and mathematics skills necessary in the 21st century global labor market.

NSF has a long record of success in leveraging its agile, motivated workforce, management processes, and technological resources to enhance productivity and effectiveness. The agency nonetheless has major challenges that place new requirements and expectations on its workforce and IT infrastructure. For example, multidisciplinary collaborative projects, international activities, and major research facility projects all add to the complexity of the agency's workload. Moreover, meeting new external administrative, oversight, and accountability requirements is an additional burden on limited staffing and funding resources. In recent years, the agency has undertaken efforts to address workload issues. NSF is continuing pilot activities to re-engineer major administrative functions, including the testing of new organization structures and operational procedures.

The NSF Inspector General has also identified management challenges in several areas including award administration, human capital, information technology, and merit review. NSF management recognizes these as long-term, continuing issues. Significant efforts have been made in these areas, and management's report on activities addressing the Inspector General's FY 2007 management challenges is included in Appendix 3 of this report.

Another item of note is NSF's participation in the pilot program led by the Office of Management and Budget for performance and accountability reporting. This report is the first part of this activity. NSF's FY 2007 performance results will be integrated with our FY 2009 Budget Request which will be available in February 2008. Also, in February, look for our seventh annual *Performance Highlights* report, as NSF continues our ongoing commitment to be informative and accountable to our stakeholders, customers, and the public. Both will be available on NSF's website, www.nsf.gov.

Thank you for your interest in the National Science Foundation. To learn more about the achievements of the past year and about the exciting discoveries that are emerging every day, I encourage you to visit NSF's award-winning website.



Arden L. Bement, Jr.
Director

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