



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Fiscal Year (FY) 2007 was a busy and successful one for the National Science Foundation (NSF), with a record number of proposals received and awards made—nearly 45,000 and 11,494, respectively. I am pleased to report the Foundation received an unqualified audit opinion, affirming that NSF's financial statements for the year ended September 30, 2007, were presented fairly in all material respects, in conformity with U.S. generally accepted accounting principals. The audit report noted no material weaknesses but included two significant deficiencies: Contract Monitoring (repeated from the prior year) and Property, Plant and Equipment Accounting and Reporting. NSF is addressing both deficiencies through a combination of process and system improvements. NSF's efforts in developing and implementing a comprehensive post-award monitoring program that is increasingly being recognized as a model in the federal government has resulted in the removal of last year's post-award monitoring deficiency.

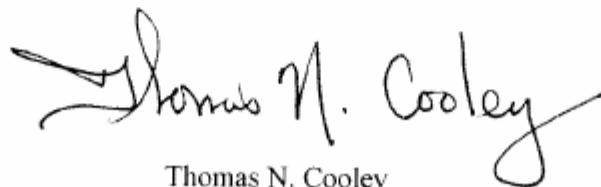
Sound financial management enables NSF to pursue the critical investments in science and engineering research and education that ultimately help ensure the Nation's security, prosperity, and well being. NSF's longstanding commitment to sound financial management practices focuses on providing the highest business services to our customers, stakeholders, and staff, including effective financial control, prompt and streamlined work processes, and reliable and timely financial information to support sound management decisions. NSF's Financial Accounting System (FAS) is an online, real-time system that provides the full spectrum of financial transaction functionality required by a grants-making agency. FAS will remain in steady-state phase in the FY 2007-2012 timeframe although we are beginning to strategically define future financial management system needs and how to meet Financial Systems Integration Office (FSIO) requirements.

Among NSF achievements of the past year are the following:

- Maintaining "Green" ratings for both the Financial Performance and the Performance Improvement initiatives on the President's Management Agenda scorecard. NSF has successfully sustained a "Green" rating for Financial Performance since inception of the PMA scorecard in 2001.
- Consistently receiving +99 percent of quarterly Federal Cash Transaction Reports (FCTR)—a collection rate that significantly exceeds that of other federal agencies. As part of the Federal Grants Streamlining Initiative, NSF has been working with the Office of Management and Budget (OMB) on a Federal Financial Report pilot to consolidate grant recipient financial reporting and replace the FCTR in FY 2008.

- Maintaining an active leadership role in the federal grants management arena including the CFO Council Grants Policy Committee and the Grants Management Line of Business Initiative. NSF is forging the integration of grants and financial management that should result in considerable cost and operations efficiencies. Similarly, NSF's participation in OMB's pilot for performance and accountability reporting for which we have prepared this *Annual Financial Report*, speaks to the Foundation's commitment to innovation—at both the frontier of science and engineering and at the management front.
- Receiving awards from two prestigious communications associations for excellence in annual reporting, for our annual *Performance Highlights* report. The Vision Award from the League of American Communications Professionals and the Blue Pencil Award from National Association of Government Communicators (NAGC) reinforce our commitment to be accountable to our stakeholders and the public for sound stewardship of the public's resources.

Lastly, I wish to note that this year's unqualified audit opinion marks ten consecutive years of clean audit opinions for the Foundation. As the requirements in financial oversight and accountability have continually increased over the decade, this accomplishment reflects the dedication and diligence of a talented staff that I am proud to lead.



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

November 8, 2007

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230




OFFICE OF
INSPECTOR GENERAL

NOV 10 2007

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

Steven C. Beering, Chair
Chair, National Science Board

FROM: Dr. Christine C. Boesz
Inspector General 

SUBJECT: Audit of the National Science Foundation's
Fiscal Years 2007 and 2006 Financial Statements

This memorandum transmits Clifton Gunderson LLP's financial statement audit report of the National Science Foundation (NSF) for Fiscal Years 2007 and 2006.

Results of Independent Audit

The Chief Financial Officer's (CFO) Act of 1990 (P.L. 101-576), as amended, requires NSF's Inspector General or an independent external auditor, as determined by the Inspector General, to audit NSF's financial statements. Under a contract monitored by the Office of Inspector General (OIG), Clifton Gunderson, an independent public accounting firm (IPA), performed an audit of NSF's Fiscal Years 2007 and 2006 financial statements. The contract required that the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States, and Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, issued by the United States Office of Management and Budget.

Clifton Gunderson issued an unqualified opinion on NSF's financial statements. In its Report on Internal Control over Financial Reporting, Clifton Gunderson identified two significant deficiencies related to NSF's contract monitoring and accounting and reporting for property, plant, and equipment. Clifton Gunderson also reported that there were no instances in which NSF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of

1996 (FFMIA) , and found no reportable noncompliance with laws and regulations it tested.

Management's response, dated November, 10, 2007, follows Clifton Gunderson's report.

Evaluation of Clifton Gunderson's Audit Performance

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

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

Clifton Gunderson LLP is responsible for the attached auditor's report dated November 10, 2007, and the conclusions expressed in the report. We do not express any opinion on NSF's financial statements, internal control, conclusions on compliance with laws and regulations, or on whether NSF's financial management systems substantially complied with FFMIA.

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

Attachment

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

INDEPENDENT AUDITOR'S REPORT

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

Dr. Steven Beering
Chairman, National Science Board

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

In our audit of NSF for fiscal year (FY) 2007 we found:

- The NSF financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations;
- Progress has been made in FY 2007 on the two control deficiency conditions noted in the FY 2006 auditor's report; however, certain matters relating to one of those conditions continue to exist and are reported herein as a significant deficiency. In addition a second significant deficiency was noted during our FY 2007 audit;
- No instances of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- No instances of noncompliance with laws and regulations.

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

OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, NSF's assets, liabilities, and net position as of September 30, 2007 and 2006; and net costs; changes in net position and budgetary resources for the years then ended.

CONSIDERATION OF INTERNAL CONTROL

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies which adversely affect NSF's ability to meet the internal control objectives listed in the objectives, scope, and methodology section of this report, or meet OMB criteria for reporting matters under FMFIA.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. None of the significant deficiencies described in **Exhibit I** are considered material weaknesses.

As required by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we considered NSF's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the component's of NSF's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 07-04, with respect to internal control related to performance measures reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that are not considered significant deficiencies, but are communicated in a separate management letter.

SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under Government Auditing Standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, we have reviewed the status of NSF's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 6, 2006. The prior year audit report noted two control deficiencies: 1) *Post-Award Oversight for High Risk Grants and Cooperative Agreements* and 2) *Contract Monitoring*. NSF management has implemented substantial changes to its Post-Award Oversight policies and procedures and, accordingly, the prior year finding is not considered a Significant Deficiency for purposes of this report. However, continued improvement is needed in Contract Monitoring policies and procedures, and it is included in this report (**Exhibit I**) as Significant Deficiency number one.

CONSISTENCY OF OTHER INFORMATION

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

OBJECTIVES, SCOPE AND METHODOLOGY

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

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

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

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

We did not test compliance with all laws and regulations applicable to NSF. We limited our tests of compliance to those laws and regulations required by OMB audit guidance we deemed applicable to the financial statements for the fiscal year ended September 30, 2007. We caution

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

We performed our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

AGENCY COMMENTS AND OUR EVALUATION

We have considered management's response (**Exhibit II**) and have concluded that no change is needed to our original findings, conclusions, or recommendations. We will evaluate the status of these findings during the FY 2008 audit.

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

Clifton Henderson LLP

Calverton, Maryland
November 10, 2007

**NATIONAL SCIENCE FOUNDATION
CONSIDERATION OF INTERNAL CONTROL
SIGNIFICANT DEFICIENCIES
September 30, 2007**

1. Contract Monitoring

Background:

In our fiscal year (FY) 2006 audit report we noted that NSF had significant weaknesses in its contract monitoring policies and procedures and, accordingly, we made three recommendations for improvement. Specifically we found that NSF did not have a comprehensive, risk-based system, including detailed post-award policies and procedures, in place to oversee and monitor its contract awards. In FY 2007, NSF expended approximately \$551 million on active contracts and interagency agreements for the delivery of products and services. Of this amount, \$212 million was disbursed through advance payment programs with three contractors, including \$148 million for logistical support of the U.S. Antarctic Program (USAP).

Conditions:

Although NSF has made some progress in addressing our FY 2006 recommendations, additional improvements are needed. The following paragraphs describe the changes NSF has made in FY 2007, and the specific conditions that continue to exist at September 30, 2007.

Quarterly Expenditure Report Reviews - NSF contracts with the Defense Contract Audit Agency (DCAA) to perform Quarterly Expenditure Report reviews (QER review program) for the three advance payment contractors. The QER's were performed based on an agreed upon set of procedures that included reconciling billing rates with the contractor's accounting system and contract rates. The QER reviews also compared accuracy of amounts to the contractor's accounting system. However, these reviews are not an adequate substitute for a comprehensive, risk-based system which is needed to provide management with material assurance that costs paid by NSF are valid and reasonable.

OIG Cost Incurred Reports - DCAA, under contract with the OIG, performed audits of costs incurred by NSF's largest contractor for the FYs 2000 through 2004. The cost incurred audits are an important tool to be used by management to assess overall contractor compliance with financial terms and conditions. These reports, issued in October 2005 and September 2006, identified over-billings, internal control weaknesses, and questioned costs of \$55.5 million. NSF has not taken final action to address \$35 million of these questioned costs. Since the findings in these prior year audits had not been resolved, further audits have not yet been performed for FY 2005 through 2007. Accordingly, based on the results to date, further questioned costs are likely.

Contracts Manual - In FY 2007, NSF updated its contract manual to include some specific policies and procedures for contract administration. Though such updates included some procedures for pre-award acquisition and contract administration planning, the changes were not

sufficiently comprehensive to meet the objectives of Federal requirements for contract oversight. NSF needs to develop procedures to include in-depth policy and guidance for implementing contract monitoring activities. For example, NSF needs to create a thorough process to assess contractual risk and implement risk mitigation plans to ensure that the requirements of the contracts are being met. Without a comprehensive set of controls in place to assess the risks faced from both external and internal sources, NSF cannot ensure that its contractors use Federal funds consistently with the objectives of the contract, and that funds are protected from waste, fraud, or mismanagement.

Effectiveness of Oversight Procedures - During our FY 2007 audit, we continued to find that NSF's oversight and contract monitoring activities were not completely effective. Specifically, we noted the following:

- NSF provided funds to a contractor without approving its annual program plan (APP). This plan establishes the authorized work and budget for the contract. The USAP contractor submitted its FY 2007 APP to NSF on September 15, 2006 for NSF's approval by September 30, 2006. However, NSF did not approve the APP until November 6, 2006 because of the uncertainty over the FY 2007 continuing resolution. Consequently, even though the contractor was provided with a temporary "not-to-exceed" funding level of \$144 million beginning October 1, 2006, the contractor was technically operating in FY 2007 without an officially approved APP. Providing funds to a contractor without an approved APP may result in the contractor performing work which NSF would not have authorized.
- NSF's largest contractor did not submit its contractually required monthly financial report. This report provides detailed budget and financial information for each project as detailed in the APP. Without such reports, NSF could not determine that the contractor spent contract funds as authorized.
- During our FY 2007 audit, we tested 49 procurement transactions. We noted several exceptions in our document review such as incomplete contract files, missing procurement documentation and recording errors. The exceptions noted in this limited sample testing are an indication that the untested population may have similar deficiencies. The specific exceptions noted are summarized as follows:
 - NSF was not able to provide the documentation evidencing the contracting officer's justification and approval of a sole source contract (a simplified acquisition exceeding \$100,000), or any research conducted to rationalize the fact that NSF precluded another supplier from providing services. In addition, the actual rationale used for sole source recommended by an IT specialist was brief and vague. Management was unable to provide all relevant documentation as required to be maintained by the Federal Acquisition Regulation (FAR). Noncompetitive procurements are vulnerable to fraud, abuse and waste.
 - In one of the procurement files tested, we noted the purchase order amount recorded in the general ledger exceeded the authorized purchase order. In addition, the requester and approver of the purchase requisition (PR) was the same individual,

and the PR was neither signed nor dated. Without appropriate segregation of duties, the risk that the procurement may be fraudulent increases.

- In one of the procurement files tested, NSF was not able to provide the PR to support the amount of commitment recorded in the general ledger. Without support documentation, the transactions recorded in the general ledger\financial statements may be inaccurate.
 - NSF did not calculate and make appropriate interest payments, in accordance with the Prompt Payment Act (PPA), for one invoice that was paid approximately two months after the payment due date. Without an automated invoice approval and payment tracking system, the risk of unnecessary interest payments and non-compliance with the Prompt Payment Act increases.
 - In seven procurement files examined, the incorrect object class code was used to record the transactions in the general ledger. These type errors could result in incorrect comparisons of actual to budget data, which OMB uses in its analysis of NSF's operations.
- The OIG also performed a review of certain aspects of NSF's contract monitoring processes, and its report dated October 1, 2007 noted similar weaknesses in NSF's contract monitoring program.

In summary, even though our testing did not result in material adjustments to NSF's financial statements, NSF's procedures were not adequate to ensure that contractors used NSF funds consistent with the objectives of the contract. In addition, contract funds may not have been adequately protected from waste, fraud, and mismanagement; laws and regulations may not have been followed; and reliable financial reports were not obtained for analysis.

Recommendations: We recommend that NSF management:

- 1) Approve the APPs prior to providing funds to the contractor, and modify the plan according to the final appropriation, if different from the original APP.
- 2) Expand the contract oversight program to include comprehensive post-award monitoring policies and procedures and training to ensure that the requirements of the contracts are being met. The policies and procedures should specifically include a methodology for identifying high risk contracts and instituting additional oversight and monitoring to address these risks.
- 3) Implement guidance in the contracts manual to ensure that a thorough review of contract folder is performed, and that documentation is complete without any material discrepancies between documents. In addition, the manual should emphasize the importance of approval for all procurement actions that are other than "full and open competition." Also, procedures to ensure a proper segregation of duties must be clearly described in the manual.
- 4) Continue the Quarterly Expenditure Report review program, but supplement that program by continuing to expand procedures detailed in the contracts manual. Additional testing

should be performed on the higher risk contracts and should also include testing to identify unreasonable and unrelated costs.

- 5) Resolve the outstanding OIG audits of NSF's largest contractor for FY 2000-2004. Coordinate with the OIG to determine the need for incurred cost audits for FYs 2005 through 2010, the end of the current contract.
- 6) Implement a system to track the status of the invoice from the invoice receipt to payment processing. The system should notify management of invoices that have not been processed using the PPA requirement to ensure the timely review by approving officials. In addition, when the invoice passes the 30 day payment deadline (unless specified otherwise), the system should calculate interest automatically and apply it to all vendor invoices processed for payment in excess of 30 day requirement.
- 7) Provide training to all employees (Approving Official, COTR, Administrative Officer, etc.) responsible for the acceptance of services and/or goods, reemphasizing due diligence responsibility for the timely review and payment of invoices.
- 8) Implement recommendations stated in the OIG's letter relating to contract monitoring dated October 1, 2007.

2. Property Plant & Equipment (PP&E) Accounting and Reporting

Background:

The Contract Monitoring finding in our FY 2006 audit report identified improvements needed in NSF's monitoring of its contractor responsible for approximately \$379 million of Property Plant and Equipment (PP&E) in Antarctica. NSF has made some progress this year; however, NSF's oversight of this contractor's acquisition and management of PP&E purchased with NSF funds continues to need improvement.

In response to our FY 2006 recommendations, NSF engaged a consultant to evaluate the feasibility of obtaining source documentation for acquisitions prior to FY 2007, as well as to validate a sample of FY 2007 property acquisitions and disposals. The consultant concluded that, based on information provided by the contractor, the cost to obtain supporting documentation for pre FY 2007 acquisitions exceeded the benefits. The consultant's work to validate FY 2007 property acquisitions and disposals did not identify any material exceptions. We performed a variety of internal control and substantive audit procedures, more extensive than those performed by the consultant, and identified several weaknesses in internal control.

Accordingly, due to NSF's extensive reliance on the contractor; the numerous, nonintegrated systems and manual processes used to account for property; the complexity and manual nature of the freight cost model; difficulties in obtaining supporting documentation of property transactions from its contractors; and errors that our testing identified; we consider these PP&E accounting and reporting weaknesses to collectively be a separate Significant Deficiency this year.

The continued weaknesses are detailed in the following areas:

- PP&E Transaction Processing
- Non-Integrated USAP PP&E Systems
- Freight Cost Model (FCM)

Each of these conditions is discussed separately below.

Conditions:

PP&E Transaction Processing

Our testing identified several exceptions related to timeliness of recording, lack of supporting documentation, and lack of proper authorization. Even though material adjustments were not needed to the property accounts at September 30, 2007, internal controls were not adequate to ensure reliability of reported PP&E balances.

Specifically, we noted a number of exceptions, listed below, which raise concerns about the adequacy of NSF's controls over financial reporting of PP&E activity.

- In 14 of the 48 transactions examined, the PP&E amounts were not recorded timely in the property accounts. Some transactions were recorded several months or years after the financial event occurred.
- We noted that certain accumulated Construction in Process costs, which should have been transferred to Real Property accounts when the asset was placed in service, were not transferred. Accordingly, NSF made a \$107 million adjustment to transfer Construction in Process to Real Property accounts in FY 2007, four years after the buildings were occupied. This adjustment represented over 70% of the existing balance of CIP.

Additionally, 3 of 16 Construction in Process to Real Property transfers tested were not supported by a signed conditional occupancy certificate, as required by NSF policy. Approved conditional occupancy certificates document substantial completion and safe condition for occupancy. Without these certificates, buildings may be occupied before they are ready for occupancy or buildings that may be ready for use may remain idle. In addition, the wrong asset category may be used in the accounting system affecting reported balances of both Construction in Process and Real Property accounts.

- In 1 of the 8 Construction in Process transactions examined, the employee's salary adjustment for labor costs relating to the project was not signed by the authorized official. Therefore, NSF does not have assurance that the labor charged to Construction in Process accounts benefited the NSF contract, and was charged at the correct rate.
- In 3 of the 16 Real Property demolition transactions examined, there were some email communications on the proposed demolition; however, it is unclear whether the demolitions were actually authorized because a final acceptance certificates for the asset demolition was not prepared.

- In 9 of the 24 Capital Equipment transactions examined, we noted one instance of missing purchase requisition and purchase orders. Therefore, it is unclear if the purchase was authorized. We also noted two instances of improperly calculated and recorded freight cost model amounts, which affects the accuracy of the amounts reported on the financial statements. Finally we noted six instances of two different NSF ID numbers (asset identifier) assigned to the same piece of equipment which impairs accountability of these assets

Non-Integrated USAP PP&E Systems

NSF and its contractor use at least five systems to capture and report PP&E activities for the USAP. Financial information from these systems is not integrated with NSF's general ledger system, Financial Accounting System. In addition, a majority of USAP PP&E financial activities are recorded using software owned by the Contractor that NSF may not have access to or a license to use after the contract expires in 2010.

The lack of an integrated PP&E system to track financial activities results in the contractor and NSF personnel performing a variety of manually intensive and time consuming procedures, which are prone to errors, to generate information for NSF's financial statements. For example, we noted that certain data elements take several months to process, and it takes a substantial amount of time for the contractor to provide supporting documentation to management and auditors for property transactions during the year. In addition, NSF management cannot record these assets until it receives the manually generated reports from the contractor resulting in inaccurate expense and asset reporting during a majority of the year. An integrated PP&E system would ultimately improve the integrity, accuracy, accountability, completeness, and timeliness of reporting PP&E activities in NSF's financial statements.

In summary, the PP&E accounting systems used by NSF and its contractor, combined with the manual processes performed to record PP&E, pose an abnormally high risk that financial data supporting the PP&E balances may be inaccurate, which could result in NSF's financial statements being misstated throughout the year.

Freight Cost Model (FCM)

NSF uses the Freight Cost Model (FCM) to calculate the cost of transporting PP&E to the Antarctic and is another example of the manual nature of NSF's property accounting process. The FCM, developed in 1997, is a complicated analysis prepared using Excel. The FCM is updated annually, using an average of the previous three years' rates to compute the rate for the current year. Maintaining this model requires significant contractor resources.

The data used in the FCM is derived from information (i.e. manual spreadsheets, third party reports, and e-mails, etc.) obtained from various groups including NSF management, its Contractor, and third parties. Consequently, compiling the data for the FCM is a lengthy and cumbersome process, and it is not conducive to providing timely reporting to NSF of PP&E freight activities and balances for its financial statements. In addition, since the Excel file can be easily manipulated, the results are prone to both data entry and calculation errors.

Recommendations:

Our recommendations are summarized pursuant to the three areas of concern as follows:

PP&E Transaction Processing Oversight

1. We recommend that management continue to validate a sample of assets acquisitions and disposals each year. This process should include comparing amounts reported in the PP&E accounts to detailed supporting documentation provided by the contractor on a test basis throughout the year (sampling both large and smaller purchases).

The validation program should also include tests of internal controls implemented by the contractor, such as a determination of proper authorizations, proper property categorization and valuation, proper tracking/tagging of assets, and timeliness of recording transactions in the accounting system, etc. As applicable, management should ensure that appropriate managerial cost accounting principles used in costing items are reviewed periodically for reasonableness.

The validation process for future years should initially test 75 % of the year's property activity; however, as the nature and extent of exceptions decline, such coverage could be reduced. Documentation and other data reviewed during this validation process should be electronically maintained by NSF. In addition, until the current FCM is revised, management should continue to examine documentation supporting the calculations used.

2. We recommend that management consider obtaining independent cost appraisals for any specific large construction or completed building projects where actual cost documentation is not readily available, or if it appears that the Construction in Process or Real Property no longer functions as originally intended or is no longer safe for use.
3. We recommend that NSF periodically confirm with the contractor the status and availability for use of property under construction.
4. We recommend that management include a provision in the next contract requiring the contractor to provide electronic copies of all significant documentation supporting the cost of property transactions.

Integrated PP&E Accounting System for USAP

5. We recommend that NSF develop a plan to implement an integrated entity-wide property management system that would fully automate the recording, tracking, and analysis of all PP&E accounting processes. Due to the materiality of the Antarctic program (USAP), the plan should consider incorporating a requirement in the upcoming USAP Statement of Work for the contractor to provide an accounting system for PP&E in the Antarctic to support the entity-wide system. The total NSF

property system should include an interface with NSF's general ledger and allow ready access to those requiring financial information of property transactional activity. To accomplish this interface with the general ledger, the transaction code structure in the general ledger will need to be revised.

6. Prior to 2010, NSF should ensure that if the current contractor is not selected to continue its USAP service that NSF will have access to, or a license to use, the existing software while a new property management system is being implemented.

Freight Cost Estimation Model

7. We recommend that management implement procedures to streamline the calculation of the FCM and improve the accuracy and timeliness of reporting transportation costs to the Antarctic. Changes to the FCM should not wait until the integrated accounting system, recommended above, is implemented. The revised methodology should be reviewed annually to ensure continued relevance of the managerial cost accounting methodology, and that the assumptions and calculations used in the developing and maintaining the model are reasonable.


**NATIONAL SCIENCE FOUNDATION
MANAGEMENT'S RESPONSE TO FY 2007
INDEPENDENT AUDITOR'S REPORT
November 10, 2007**

NATIONAL SCIENCE FOUNDATION

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NOV 10 2007

To: Christine C. Boesz
Inspector General

From: Thomas N. Cooley 
Chief Financial Officer

Subject: Management's Response to Independent Auditor's Report for
Fiscal Year 2007

I welcome the National Science Foundation's (NSF) Audit Report for its Fiscal Year (FY) 2007 Financial Statements. For the tenth consecutive year we have achieved a clean opinion on the Financial Statements.

The achievement of this unqualified opinion was due to the high level of technical expertise, and commitment demonstrated by both of our organizations. During the audit process, NSF worked in partnership with the audit team to provide timely and constructive information to improve our financial reporting.

The years of hard work by NSF in developing and strengthening our post award monitoring program reached an important milestone. I am proud of NSF's achievement in closing the FY 2006 Reportable Condition on "Post-Award Oversight for High Risk Grants and Cooperative Agreements".

NSF concurs with the significant deficiencies described in your report. The Foundation continued to make progress during FY 2007 in addressing financial management deficiencies in contract monitoring and property, plant and equipment accounting and reporting. Corrective actions are either underway or will be in place to address each one of these issues. NSF will provide a detailed corrective action plan that highlights its activities to resolve these matters.

The Foundation is committed to continuing efforts to improve management over agency programs and to better serve our stakeholders and taxpayers. We appreciate the continuing professional, cooperative relationship that exists with both Clifton Gunderson and the Office of Inspector General.

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



National Science Foundation

FINANCIAL STATEMENTS
as of and for the years ended
September 30, 2007 and 2006

National Science Foundation
Balance Sheet
As of September 30, 2007 and 2006
(Amounts in Thousands)

Assets	<u>2007</u>	<u>2006</u>
Intragovernmental Assets		
Fund Balance With Treasury (Note 2)	\$ 8,310,182	\$ 7,823,954
Accounts Receivable	24,561	37,530
Advances (Note 3)	35,255	35,189
Total Intragovernmental Assets	<u>8,369,998</u>	<u>7,896,673</u>
Cash and Other Monetary Assets		
Cash and Other Monetary Assets	16,228	12,941
Accounts Receivable, Net	247	139
Advances (Note 3)	79,326	76,511
General Property, Plant and Equipment, Net (Notes 4 and 5)	260,207	261,347
Total Assets	<u>\$ 8,726,006</u>	<u>\$ 8,247,611</u>
Liabilities		
Intragovernmental Liabilities		
Advances From Others	\$ 72,018	\$ 1,593
Employer Contributions and Other	745	712
FECA Employee Benefits	292	284
Other Intragovernmental Liabilities (Notes 6 and 8)	3,050	3,050
Total Intragovernmental Liabilities	<u>76,105</u>	<u>5,639</u>
Accounts Payable	38,358	43,932
FECA Employee Benefits	1,182	1,287
Accrued Liabilities - Grants	360,475	347,737
Accrued Liabilities - Contracts, Payroll, and Other	25,046	29,233
Accrued Annual Leave	14,264	13,892
Total Liabilities	<u>\$ 515,430</u>	<u>\$ 441,720</u>
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	\$ 7,587,271	\$ 7,255,489
Cumulative Results of Operations - Earmarked Funds (Note 9)	334,664	279,282
Cumulative Results of Operations - Other Funds	288,641	271,120
Total Net Position	<u>8,210,576</u>	<u>7,805,891</u>
Total Liabilities and Net Position	<u>\$ 8,726,006</u>	<u>\$ 8,247,611</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Net Cost
For the Years Ended September 30, 2007 and 2006
(Amounts in Thousands)

Program Costs	<u>2007</u>	<u>2006</u>
Research and Related Activities		
Gross Costs	\$ 4,507,933	\$ 4,514,053
Less: Earned Revenues	<u>(68,500)</u>	<u>(109,254)</u>
Net Research and Related Activities	<u>4,439,433</u>	<u>4,404,799</u>
Education and Human Resources		
Gross Costs	\$ 904,482	\$ 925,385
Less: Earned Revenues	<u>(8,270)</u>	<u>(16,566)</u>
Net Education and Human Resources	<u>896,212</u>	<u>908,819</u>
Major Research Equipment and Facilities Construction		
Gross Costs	\$ 222,926	\$ 191,597
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Major Research Equipment and Facilities Construction	<u>222,926</u>	<u>191,597</u>
Costs Not Assigned to Other Programs		
Gross Costs	\$ 77,558	\$ 90,546
Less: Earned Revenues	<u>-</u>	<u>-</u>
Net Costs Not Assigned to Other Programs	<u>77,558</u>	<u>90,546</u>
Net Cost of Operations (Note 10)	<u>\$ 5,636,129</u>	<u>\$ 5,595,761</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Changes in Net Position
For the Year Ended September 30, 2007
(Amounts in Thousands)

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

The accompanying notes are an integral part of these statements.

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

	<u>2006</u>		
	<u>Earmarked</u>	<u>All Other</u>	<u>Total</u>
Cumulative Results of Operations			
Beginning Balances (Note 9)	\$ 217,955	281,141	499,096
Budgetary Financing Sources			
Appropriations Used	-	5,501,447	5,501,447
Non-exchange Revenue	-	278	278
Donations	-	31,142	31,142
Appropriated Earmarked Receipts Transferred In	105,324	-	105,324
Other Financing Sources			
Transfers In / (Out) Without Reimbursement	-	(257)	(257)
Imputed Financing From Costs Absorbed By Others	-	9,151	9,151
Other	-	(18)	(18)
Total Financing Sources	<u>105,324</u>	<u>5,541,743</u>	<u>5,647,067</u>
Net Cost of Operations (Note 10)	43,997	5,551,764	5,595,761
Cumulative Results of Operations (Note 9)	<u>\$ 279,282</u>	<u>271,120</u>	<u>550,402</u>
 Unexpended Appropriations			
Beginning Balances	\$ -	7,198,420	7,198,420
Budgetary Financing Sources			
Appropriations Received	-	5,653,370	5,653,370
Appropriations Transferred In / (Out)	-	7,975	7,975
Other Adjustments	-	(102,829)	(102,829)
Appropriations Used	-	(5,501,447)	(5,501,447)
Total Budgetary Financing Sources	<u>-</u>	<u>57,069</u>	<u>57,069</u>
Total Unexpended Appropriations	<u>-</u>	<u>7,255,489</u>	<u>7,255,489</u>
Net Position	<u>\$ 279,282</u>	<u>7,526,609</u>	<u>7,805,891</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Budgetary Resources (page 1 of 2)
For the Years Ended September 30, 2007 and 2006
(Amounts in Thousands)

	<u>2007</u>	<u>2006</u>
Budgetary Resources		
Unobligated Balance - Brought Forward, October 1	\$ 203,544	\$ 243,674
Recoveries of Prior Year Unpaid Obligations	44,474	44,781
Budget Authority		
Appropriation	6,065,805	5,790,114
Spending Authority From Offsetting Collections		
Earned		
Collected	90,844	124,165
Change in Receivables From Federal Sources	(12,972)	1,705
Change in Unfilled Customer Orders		
Advance Received	70,425	(13,577)
Without Advance From Federal Sources	(41,296)	(14,458)
Subtotal - Budget Authority	<u>6,172,806</u>	<u>5,887,949</u>
Nonexpenditure Transfers, Net	5,710	7,975
Permanently Not Available	(38,666)	(102,829)
Total Budgetary Resources (Note 13)	<u>\$ 6,387,868</u>	<u>\$ 6,081,550</u>

The accompanying notes are an integral part of these statements.

National Science Foundation
Statement of Budgetary Resources (page 2 of 2)
For the Years Ended September 30, 2007 and 2006
(Amounts in Thousands)

	<u>2007</u>	<u>2006</u>
Status of Budgetary Resources		
Obligations Incurred		
Direct (Note 12)	\$ 6,063,147	\$ 5,777,489
Reimbursable (Note 12)	106,044	100,517
Total Obligations Incurred (Notes 13 and 15)	<u>6,169,191</u>	<u>5,878,006</u>
Unobligated Balance - Apportioned (Note 2)	141,709	120,872
Unobligated Balance - Not Available (Notes 2 and 13)	76,968	82,672
Total Status of Budgetary Resources (Note 13)	<u>\$ 6,387,868</u>	<u>\$ 6,081,550</u>
Change in Obligated Balances		
Obligated Balance, Net		
Unpaid Obligations - Brought Forward, October 1	7,747,341	7,570,194
Less: Uncollected Customer Payments From Federal Sources - Brought Forward, October 1	(126,930)	(139,683)
Total Unpaid Obligated Balance, Net	<u>7,620,411</u>	<u>7,430,511</u>
Obligations Incurred (Note 13)	6,169,191	5,878,006
Less: Gross Outlays	(5,691,662)	(5,656,078)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(44,474)	(44,781)
Change in Uncollected Customer Payments From Federal Sources	54,267	12,753
Subtotal	<u>\$ 8,107,733</u>	<u>\$ 7,620,411</u>
Obligated Balance, Net - End of Period		
Unpaid Obligations	8,180,395	7,747,341
Less: Uncollected Customer Payments From Federal Sources	(72,662)	(126,930)
Total Unpaid Obligated Balance, Net - End of Period (Note 2)	<u>\$ 8,107,733</u>	<u>\$ 7,620,411</u>
Net Outlays		
Gross Outlays	5,691,662	5,656,078
Less: Offsetting Collections	(161,269)	(110,588)
Less: Distributed Offsetting Receipts	(1,535)	(4,207)
Net Outlays	<u>\$ 5,528,858</u>	<u>\$ 5,541,283</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS
(Amounts in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of NSF as required by the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, and the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." While the statements have been prepared from the books and records of NSF in accordance with United States generally accepted accounting principles (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 in addition to recognizing certain budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. Revenues and Other Financing Sources

NSF receives the majority of its funding through appropriations contained in the Science, State, Justice, Commerce, and related Agencies Appropriations Act. NSF receives annual, multi-year, and no-year appropriations that may be expended, within statutory limits. NSF also receives funding via warrant from a special earmarked receipt account that is reported as H-1B funds. Additional amounts are obtained from reimbursements for services provided to other federal agencies, transfers from other federal agencies via nonexpenditure transfers, as well as funds obtained from receipts to the donation account. Also, NSF receives interest earned on overdue receivables and excess cash advances to grantees. The interest earned on overdue receivables and excess cash advances to grantees is returned to the Treasury.

For FY 2007, Congress passed a full year Continuing Appropriations Resolution (CR). As noted in OMB Bulletin No. 07 - 03; Division B, Title I of H.J. Res. 20 provides full-year funding for accounts not funded by Public Laws 109-289 and 109-295. Accounts are generally funded at the level provided in the FY 2006 appropriations act with an additional funding of fifty percent of the cost of any FY 2007 increase in rates of pay for employees. Additionally, Public Law 110-5 provides funding for Research and Related Activities that exceeded the FY 2006 budget appropriation.

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

Under the general authority of the Foundation, NSF is authorized to accept into the NSF Donations Account and use both U.S. and foreign funds. 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 also 42 U.S.C. 1870 Section 11 (f) (NSF is authorized to receive and use funds donated by others.) Donations may be received from foreign governments, private companies, academic institutions, non-profit foundations, and individuals. These funds must be donated without restriction other than that they be used in furtherance of one or more of the general purposes of the Foundation. Funds are made available for obligations as necessary to support NSF programs.

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

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

F. Accounts Receivable, Net

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

G. Advances

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

H. Grant Expenditure Accrual

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

NSF estimates the ending cash on hand balance in total for its grantees after the accrued grant expenditures have been determined. Based on an average of six years of historical cash on hand data, NSF applies the negative cash on hand rate to the estimated ending cash on hand to determine the amount to record as a liability. The difference between the total expenditure amount accrued and the liability recorded is used to reduce the advance.

I. Contract Expenditure Accrual

Contract expenditures for the year include an estimate of fourth quarter expenditures incurred by the three contractors that are funded on an advance basis. The three contractors are Raytheon Polar Services Company (RPSC), Consortium for Ocean Leadership, Inc (COL) (formerly Joint Oceanographic Institutions (JOI)), and Integrated Ocean Drilling Program Management International, Inc (IMI). Expenditures are estimated for each contractor by computing an average of the previous four quarters of actual expenditures reported. The accrual increases expenditures and decreases the advance account. If the estimated accrual amount exceeds total advances, an accrued liability is recorded for the excess.

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

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

The PP&E balance consists of Equipment, Aircraft and Satellites, Buildings and Structures, Leasehold Improvements, and Construction in Progress. These balances are comprised of PP&E maintained "in-house" by NSF to support operations and PP&E under the U.S. Antarctic Program (USAP). The majority of USAP property is currently the custodial responsibility of RPSC, the NSF contractor for the program. Additionally, the U.S. Navy's Space and Naval Warfare Center, the Air National Guard 109th, and Ken Borek Air have custodial responsibility for some USAP property.

Costs incurred to construct buildings and structures are accumulated and tracked as construction in progress. At 75% completion of construction, an onsite 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, capitalized as real property, and depreciated over the respective useful life of the asset.

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

Equipment

5 years	computers and peripheral equipment, fuel storage tanks, laboratory equipment, and vehicles
7 years	communications equipment, 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

Leasehold Improvements

The cost of leasehold improvements performed by GSA is financed with NSF appropriated funds. The leasehold improvements are capitalized by NSF as they are transferred from Construction in Progress. Amortization is calculated using the straight line half year convention. In FY 2007, Leasehold Improvements completed during the year were amortized over 6 years, the remaining years on NSF's lease with GSA.

Office Space: The NSF Headquarter buildings are leased through the GSA under an occupancy agreement. The cancellation clause within the agreement allows NSF to terminate use with a 120 day notice. NSF is billed by GSA for the leased space as rent based upon estimated lease payments made by GSA plus an administrative fee. The cost of the Headquarter buildings are not capitalized by NSF.

Internal Use Software

NSF controls, values and reports purchased or developed software as tangible property assets, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10 – "Accounting for Internal Use Software". NSF identifies software investments as accountable property for items that, in the aggregate, cost \$500 or more to purchase, develop, enhance or modify a new or existing NSF system. Software projects that are not completed at year-end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight line half year convention.

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

K. Advances from Others

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

L. Accounts Payable

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

M. Accrued Liabilities

Accrued liabilities consist of grant accruals, contract accruals, accrued payroll, and benefits. Grant liabilities and contract accruals are estimated expenditures greater than the amount advanced. At year-end, NSF accrues for the amount of estimated grantee and contractor expenses not covered by advances. The grant accrual process is explained further in Note 1H, Grant Expenditure Accrual. The contract expenditure accrual process is explained further in Note 1I, Contract Expenditure Accrual.

NSF's payroll services are provided by the Department of the Interior. Accrued payroll and benefits relate to services rendered by NSF employees but not yet paid. At year-end, NSF accrues the amount of wages and benefits earned, but not yet paid. Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect changes. To the extent current and prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future Salaries and Expenses appropriations. Sick leave and other types of nonvested leave are expensed as taken.

N. Employee Benefits

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

O. Net Position

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

P. Retirement Plan

In FY 2007, approximately 22 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 that it offers a thrift savings plan to which NSF automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent of pay. NSF also contributes the employer's matching share for Social Security for FERS participants.

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

SFFAS No. 5, "Accounting for Liabilities of the Federal Government", requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information is also provided by OPM regarding the full cost of health and life insurance benefits on the OPM Benefit Administration Website <http://www.opm.gov/retire/asd/htm/2007/07-305.asp>

Q. 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, whether from NSF's appropriations or the "Judgment Fund" administered by the Department of Justice under Section 1304 of Title 31 of the United States Code, and, the payment amounts can be reasonably estimated.

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

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

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

Environmental Liabilities: NSF manages the U.S. Antarctic Program. The Antarctic Conservation Act and its implementing regulations identify the requirements for environmental clean-up in Antarctica. NSF continually monitors the U.S. Antarctic Program in regards to environmental issues. NSF establishes its environmental liability estimates in accordance with the requirements of the SFFAS No. 5, "Accounting for Liabilities of the Federal Government," and as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," and the Federal Financial Accounting and Auditing Technical Release No. 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government." Further information regarding environmental liabilities is included in Note 6, Estimated Clean Up Cost Liability.

R. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, 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.

S. Presentation of the Statement of Net Cost

The Statement of Net Cost is updated to reflect the Foundation's new strategic framework set forth in NSF's new strategic plan, "Investing in America's Future: Strategic Plan FY 2006-2011." The FY 2006 Statement of Net Cost, previously issued, is reformatted to reflect the new presentation.

T. Presentation of the Statement of Financing

Per OMB Circular A-136, "Financial Reporting Requirements", the Statement of Financing is no longer considered a basic statement and is presented as a note to the financial statements and referred to as "Reconciliation of Net Cost of Operations to Budget". See note 15 for further information on the change in presentation.

Note 2. Fund Balance With Treasury

Fund Balance with Treasury consisted of the following components as of September 30, 2007 and 2006:

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

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

The Donations Account includes amounts donated to NSF from all sources. Funds in the Donations Account may be used in furtherance of one or more of the general purposes of the Foundation. The donated funds are held as Fund Balance with Treasury (FBWT) or as non-FBWT with budgetary resources which represent cash held outside of Treasury at commercial banks in interest bearing accounts. These funds are collateralized up to \$22,000 by the bank through the Federal Reserve Bank of St. Louis in accordance with Treasury Financial Manual Volume 1, Chapter 6-9000. Unobligated Unavailable balances include recoveries of prior year obligations, other unobligated expired funds that are unavailable for new obligations.

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

Note 3. Advances

Intragovernmental

As of September 30, 2007 and 2006, Intragovernmental Advances to Others were \$35,255 and \$35,189 respectively.

Public

(Amounts in Thousands)	2007	2006
Advances to Grantees	\$ 68,578	\$ 76,413
Advances to Contractors	10,748	98
Total Advances to the Public	\$ 79,326	\$ 76,511

Note 4. General Property, Plant and Equipment, Net

The components of General Property Plant and Equipment as of September 30, 2007 and 2006 were:

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

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

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

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

In some cases, Federally Funded Research and Development Centers (FFRDCs), colleges and universities, and commercial entities operate on a fiscal year-end basis other than September 30. If NSF PP&E is not separately stated on the entities' audited financial statements, entities are not audited, or financial statements were not submitted, the related amounts and Fiscal Year end dates are annotated as Not Available (N/A) in the table. The available net book values and related year ends for all entities with NSF owned property are presented below.

(Amounts in Thousands)

	Amount	Fiscal Year Ending
<i>Federally Funded Research and Development Centers</i>		
National Astronomy & Ionosphere Center (Cornell) - NAIC	\$ N/A	6/30
National Center for Atmospheric Research - UCAR	181,352	9/30
National Optical Astronomy Observatories - AURA	446,858	9/30
National Radio Astronomy Observatory - AUI	N/A	9/30
<i>Colleges and Universities</i>		
California Academy of Sciences	N/A	6/30
California Institute of Technology	N/A	9/30
Columbia University	N/A	6/30
Dartmouth College	N/A	N/A
Duke University	N/A	6/30
ECPI College of Technology	N/A	6/30
Hofstra University	N/A	8/31
Kansas State University	N/A	6/30
Louisiana Universities Marine Consortium	N/A	N/A
Ohio State University Research Foundation	N/A	N/A
Old Dominion University Research Foundation	N/A	6/30
Oregon State University	N/A	6/30
San Diego State University Foundation	N/A	6/30
San Jose State University Foundation	N/A	6/30
Stanford University	N/A	8/31
University of Alaska Fairbanks Campus	N/A	6/30
University of California-Riverside	N/A	6/30
University of California-San Diego Scripps Inst of Oceanography	N/A	6/30
University of California-Santa Barbara	N/A	6/30
University of Delaware	N/A	6/30
University of Georgia Research Foundation Inc	N/A	6/30
University of Hawaii	N/A	6/30
University of Illinois at Urbana-Champaign	N/A	6/30
University of Miami Rosenstiel School of Marine & Atmospheric Science	N/A	N/A
University of Minnesota Duluth	N/A	6/30
University of Rhode Island	N/A	6/30
University of Richmond	N/A	6/30
University of South Florida	N/A	6/30
University of Washington	N/A	6/30
University of Wisconsin	N/A	6/30
University of Wisconsin-Madison	N/A	N/A

Commercial Entities

Articular Engineering, LLC	N/A	N/A
Bermuda Biological Station For Research Inc	N/A	12/31
Bossa Nova Technologies LLC	N/A	N/A
Catacel Corp	N/A	N/A
CeraMem Corporation	N/A	N/A
Ekips Technologies, Inc	N/A	N/A
EM Photonics Inc	N/A	N/A
Environmental Metrology Corporation	N/A	N/A
Fourth Wave Imaging Corporation	N/A	N/A
Global Contour LTD	N/A	N/A
Harbor Branch Oceanographic Institution, Inc.	N/A	12/31
Imago Scientific Instruments Corp	N/A	N/A
Incorporated Research Institutions for Seismology	N/A	6/30
Information Systems Laboratories Inc	N/A	N/A
Institute of Global Environment and Society	N/A	N/A
Joint Oceanographic Institutions Inc	N/A	9/30
Kapteyn-Murnane Labs, Inc	N/A	N/A
LessonLab, Inc.	N/A	N/A
Lucigen Corporation	N/A	N/A
Monterey Bay Aquarium Research Institute	N/A	12/31
New York Botanical Garden	N/A	N/A
Physical Optics Corporation	N/A	N/A
QED Technologies, Inc.	N/A	N/A
Raytheon Technical Services Company, LLC	N/A	N/A
Sinmat, Inc	N/A	N/A
Skidaway Institute of Oceanography	N/A	6/30
Smithsonian Institution Astrophysical Observatory	N/A	N/A
Tetramer Technologies, LLC	N/A	N/A
The Venture Group (Venture Innovations, Inc.)	N/A	N/A
UNAVCO, Inc.	N/A	12/31
Veco USA, Inc	N/A	N/A
Verionix	N/A	N/A
Vista Engineering Inc	255	12/31
Woods Hole Oceanographic Institution	N/A	12/31

Note 6. Estimated Clean Up Cost Liability

Antarctic

NSF is not legally liable for environmental clean-up costs in the Antarctic. Article 16 to the Protocol on Environmental Protection to the Antarctic Treaty (1991) requires that the Treaty Parties "undertake to elaborate rules and procedures relating to liability for damage arising from activities taking place in the Antarctic Treaty area. . ." Negotiations relating to the terms of the Liability Annex were concluded and the terms of the Annex finalized in 2005. The liability contemplated by the Annex is narrow: it is only prospective in its focus and generally imposes liability only when an operator fails to take response action to an environmental emergency. Regardless, as the Annex cannot enter into force until all 29 Antarctic Treaty Consultative Parties have ratified its provision (which typically requires the enactment of national laws by each Consultative Party), no legal liability for environmental clean up costs will arise for NSF for many years to come.

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

Environmental clean-up projects started and completed during the year are reflected in NSF's financial statements as expenses for the current fiscal year. However, for approved projects that are anticipated to be performed after the fiscal year or will take more than one fiscal year to complete, an estimated cost is accrued in NSF's financial statements. At September 30, 2007 and 2006, no funds have been accrued for multi-year environmental clean-up projects in the Antarctic.

Other

NSF is continuing its actions to assess the condition of the Columbia Scientific Balloon Facility (CSBF) site before completing a no-cost transfer through the GSA to the National Aeronautics and Space Administration (NASA). NASA engineers reported 10 wells on the CSBF site and are aware of one contaminated well from battery disposal. NSF estimates, in consultation with the general counsel office, that the clean-up costs will range between \$50 and \$200, the lower of which is reflected on the balance sheet as Other Intragovernmental Liabilities. This estimate is based upon the proposed NSF share of Phase II Environmental Due Diligence Audit (EDDA) of the CSBF assessment resulting from findings in the EDDA Phase I. Phase II of the joint agency environmental investigation has commenced and a final report is due February 2008 at which time NSF will be able to evaluate whether future outflow is necessary.

Note 7. Leases

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

(Amounts in Thousands)

Fiscal Year	Operating Lease Amount
2008	\$ 20,079
2009	20,604
2010	20,302
2011	20,591
2012	20,911
2013 and thereafter	24,463
Total Minimum Lease Payments	\$ 126,950

Note 8. Commitments and Contingencies

Cost Incurred Audits: A large NSF contractor provides maintenance and operations services to the United States Antarctic Program. Cost incurred audits have been completed on the contractor for fiscal years 2000 to 2004, and \$55,500 is being questioned. A corresponding receivable is not reflected in the balance sheet due to the uncertainty of NSF recovering any of these questioned costs.

Claims: Contractor claims for additional compensation under a contract awarded by the United States Air Force (USAF) for the reconfiguration of three NSF owned LC130 aircrafts, were paid by the Department of Justice Judgment Fund for \$3,000 and are reflected on the Other Intragovernmental Liabilities line of the balance sheet. In a good faith effort to make the Treasury Judgment Fund whole, NSF submitted a request for funds in its FY 2007 budget submission in order to reimburse the Treasury Judgment Fund. However, the year-long continuing resolution did not provide those funds. NSF continues to maintain that USAF should be the responsible party, and is seeking a decision from the Department of Justice Office of Legal Counsel to that effect.

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

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

The co-operative agreement with one of these FFRDCs ends in September 2008, and the re-compete process has been initiated. At September 30, 2007 a decision has not been made on whether the current management team will be retained.

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

Note 9. Earmarked Funds

In FY 1999, Title IV of the American Competitiveness and Workforce Improvement Act of 1998 (P.L. 105-277) established an H-1B Non immigrant petitioner account in the General Fund of the U.S. Treasury. Funding is established from fees collected for alien, non immigrant status petitions. This law 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 Non immigrant Petitioner fees are available to the Director of NSF until expended. The funds may be used for scholarships to low income students, or to carry out a direct or matching grant program to support private and/or public partnerships in K-12 education. The H-1B Fund is set up as a permanent, indefinite appropriation by NSF. These funds are included in the President's budget. The earmarked funds are accounted for in its own Treasury Account Fund Symbol (TAFS) and the budgetary resources for the earmarked fund are recorded as Appropriated Earmarked Receipts Transferred In, and reported according to the guidance for earmarked funds in SFFAS No. 27, "Identifying and Reporting Earmarked Funds".

(Amounts in Thousands)	2007 Earmarked Funds	2006 Earmarked Funds
Balance Sheet as of September 30, 2007 and 2006		
Fund Balance with Treasury	\$ 337,295	\$ 281,473
Advances	595	588
Total Assets	<u>337,890</u>	<u>282,061</u>
Other Liabilities	3,226	2,779
Total Liabilities	<u>3,226</u>	<u>2,779</u>
Cumulative Results of Operations	334,664	279,282
Total Liabilities and Net Position	<u>\$ 337,890</u>	<u>\$ 282,061</u>

Statement of Net Cost for the Years Ended September 30, 2007 and 2006

Program Costs	\$ 51,977	\$ 43,997
Less: Earned Revenues	-	-
Net Cost of Operations	<u>\$ 51,977</u>	<u>\$ 43,997</u>

Statement of Changes in Net Position For the Years Ended September 30, 2007 and 2006

Net Position Beginning of Period	\$ 279,282	\$ 217,955
Appropriated Earmarked Receipts Transferred In	107,359	105,324
Net Cost of Operation	(51,977)	(43,997)
Change in Net Position	<u>55,382</u>	<u>61,327</u>
Net Position End of Period	<u>\$ 334,664</u>	<u>\$ 279,282</u>

Note 10. Statement of Net Cost

Major Program Descriptions

The Statement of Net Cost presents the NSF-wide expenses incurred by the Foundation. The presentation of the NSF's net cost by strategic goal is included in this note. For FY 2007, the Statement of Net Cost is updated to reflect the Foundation's new strategic framework set forth in NSF's new strategic plan, "Investing in America's Future: Strategic Plan FY 2006-2011." The FY 2006 Statement of Net Cost is reformatted to reflect the new presentation.

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

Net costs are presented for the three primary appropriations that fund NSF's programmatic activities (Research and Related Activities, Education and Human Resources, and Major Research Equipment and Facilities Construction), and for donations and earmarked funds that are classified in the Statement of Net Cost and its related footnote as 'Costs Not Assigned To Other Programs'. Stewardship costs are prorated among them. Stewardship costs include expenditures incurred from the Salary & Expenses (S&E), National Science Board (NSB) and Office of Inspector General (OIG) appropriations. The costs for transactions in Indian Rupees are also included as Stewardship costs, and were liquidated in Fiscal Year 2007 with the remaining balance swept per order of the Executive Office of the President. These appropriations support salaries and benefits of persons employed at NSF; general operating expenses, including support of NSF's information systems technology; staff training, audit and OIG activities; and Office of Personnel Management (OPM) and Department of Labor (DOL) benefits costs paid on behalf of NSF.

At September 30, 2007 and 2006, approximately 95 percent of NSF's expenses were directly related to the Discovery, Learning, and Research Infrastructure strategic outcome goals. Net costs for each strategic goal is determined by allocating total costs by the percentage for which obligations for each strategic outcome goal accounted for total obligations in the current year. All NSF earmarked funds are allocated to the Learning strategic goal. The remaining portion of NSF's expenses relate to the Stewardship strategic goal.

At September 30, 2007 and 2006, costs related to the Stewardship activities totaled \$275,993 and \$269,574, respectively. All Stewardship costs are prorated to the other three strategic goals based on the percentage that each Strategic Goal's expenditures accounts for the total expenditures of appropriated, trust and earmarked funds.

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

Intragovernmental and Public Costs and Earned Revenue by Strategic Goal

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

Notes to the Principal Financial Statements
September 30, 2007 and 2006

(Amounts in Thousands)	Federal	2006 Public	Total
Research and Related Activities			
Discovery	\$ 103,300	2,290,502	2,393,802
Learning	37,888	840,096	877,984
Research Infrastructure	53,608	1,188,659	1,242,267
Total Research and Related Activities	194,796	4,319,257	4,514,053
Less: Earned Revenue	(109,254)	-	(109,254)
Net Research and Related Activities	85,542	4,319,257	4,404,799
Education and Human Resources			
Discovery	\$ 1,357	489,375	490,732
Learning	498	179,490	179,988
Research Infrastructure	703	253,962	254,665
Total Education and Human Resources	2,558	922,827	925,385
Less: Earned Revenue	(16,566)	-	(16,566)
Net Education and Human Resources	(14,008)	922,827	908,819
Major Research Equipment and Facilities Construction			
Discovery	\$ 5,540	96,064	101,604
Learning	2,032	35,233	37,265
Research Infrastructure	2,875	49,853	52,728
Total Major Research Equipment and Facilities Construction	10,447	181,150	191,597
Less: Earned Revenue	-	-	-
Net Major Research Equipment and Facilities Construction	10,447	181,150	191,597
Costs Not Assigned To Other Programs			
Learning	\$ 1	45,789	45,790
Research Infrastructure	9,268	35,488	44,756
Total Costs Not Assigned To Other Programs	9,269	81,277	90,546
Less: Earned Revenue	-	-	-
Net Costs Not Assigned To Other Programs	9,269	81,277	90,546
Net Cost of Operations	\$ 91,250	5,504,511	5,595,761

Note 11. Permanent Indefinite Appropriations

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

The R&RA appropriation is used for Polar research and operations support, and for reimbursement to other Federal agencies for operational and science support and logistical and other related activities for the United States Antarctic program. In Fiscal Years 2007 and 2006, the permanent indefinite appropriations for R&RA were \$439,550 and \$395,560, respectively, and are reported as a current year transfer from the annual R&RA appropriation. In FY 2007 there was no rescission, but in FY 2006 an across the board rescission of \$5,052 was passed under Public Law numbers 109-108 and 109-148.

The MREFC appropriation supports the construction and procurement of unique national research platforms and major research equipment. In Fiscal Years 2007 and 2006, the permanent indefinite appropriations for MREFC were \$190,881 and \$193,350, respectively. In FY 2007 there was no rescission, but in FY 2006 an across the board rescission of \$2,470 was passed under Public Law numbers 109-108 and 109-148.

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

OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," requires direct and reimbursable obligations be reported as Category A, Category B, or Exempt from Apportionment. In FY 2007 and FY 2006, NSF's SF-132, "Apportionment and Reapportionment Schedule," apportions all obligations incurred under Category B which is by activity, project, or object. In FY 2007 and FY 2006, direct obligations amounted to \$6,063,147 and \$5,777,489, respectively, and reimbursable obligations amounted to \$106,044 and \$100,517, respectively.

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

SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting", calls for explanations of material differences between amounts reported in the 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 2007 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2008 and can be found on the OMB web site: <http://www.whitehouse.gov/omb>.

Balances reported in the FY 2006 SBR and the related President's Budget are shown in a table below for Budgetary Resources, Obligations Incurred, Unobligated Balance - Unavailable and any related differences. The differences reported are due to differing reporting requirements for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

(Amounts in Thousands)	FY 2006		
	Budgetary Resources	Obligations Incurred	Unobligated Balance Not Available
Combined Statement of Budgetary Resources	\$ 6,081,550	\$ 5,878,006	\$ 82,672
Budget of the U.S. Government	\$ 5,999,000	\$ 5,874,000	\$ 4,000
Difference	\$ 82,550	\$ 4,006	\$ 78,672

Note 14. Undelivered Orders at the end of the Period

In accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources", the amount of budgetary resources obligated for undelivered orders for the periods ended September 30, 2007 and 2006, amounted to \$7,870,354 and \$7,450,324, respectively.

**Note 15. Reconciliation of Net Cost of Operations to Budget
(formerly the Statement of Financing)**

In FY 2007, OMB Circular No. A-136, "Financial Reporting Requirements", was updated to pronounce that the Statement of Financing will no longer be considered a Basic Statement. In compliance with SFFAS 7 "Accounting for Revenue and Other Financing Sources", the Statement of Financing is displayed in the Notes section and is referred to as "Reconciliation of Net Cost of Operations to Budget".

Amounts in Thousands	2007	2006
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 6,169,191	\$ 5,878,006
Less: Spending Authority from Offsetting Collections and Recoveries	(151,475)	(142,616)
Obligations Net of Offsetting Collections and Recoveries	6,017,716	5,735,390
Less: Offsetting Receipts	(1,535)	(4,207)
Net Obligations	6,016,181	5,731,183
Other Resources		
Imputed Financing	9,336	9,151
Other Resources	(1,375)	-
Net Other Resources Used to Finance Activities	7,961	9,151
Total Resources Used to Finance Activities	6,024,142	5,740,334
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	(390,902)	(148,852)
Resources that Fund Expenses Recognized in Prior Periods	(280)	(143)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	1,535	4,207
Resources that Finance the Acquisition of Assets	(21,539)	(22,431)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(411,186)	(167,219)
Total Resources Used to Finance Net Cost of Operations	5,612,956	5,573,115
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	383	3,993
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	383	3,993
Components Not Requiring or Generating Resources		
Depreciation and Amortization	21,478	18,666
Other	1,312	(13)
Total Components of Net Cost of Operations that will not Require or Generate Resources	22,790	18,653
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	23,173	22,646
Net Cost of Operations	\$ 5,636,129	\$ 5,595,761

Required Supplementary Stewardship Information
Stewardship Investments

Stewardship Investments
Research and Human Capital

(Dollar Amounts in Thousands)

Research and Human Capital Activities

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Basic Research	4,195,444	3,682,266	3,564,093	3,494,302	3,519,159
Applied Research	432,820	339,757	291,169	209,225	218,152
Education and Training	808,642	1,378,472	1,386,952	1,224,058	867,489
Non-Investing Activities	275,993	321,085	292,426	268,298	196,363
Total Research & Human Capital Activities	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>	<u>\$ 4,801,163</u>

Inputs, Outputs and/or Outcomes

Research and Human Capital Activities

Investments In:

Universities	4,016,101	3,994,682	3,970,851	3,705,751	3,310,365
Industry	208,696	199,523	223,563	196,260	178,000
Federal Agencies	203,759	221,002	143,316	107,212	144,792
Small Business	220,602	218,334	193,199	200,995	186,400
Federally Funded R&D Centers	335,731	299,802	278,542	269,968	285,329
Non-Profit Organizations	421,775	428,648	418,209	374,838	360,654
Other	306,235	359,589	306,960	340,859	335,623
	<u>\$ 5,712,899</u>	<u>\$ 5,721,580</u>	<u>\$ 5,534,640</u>	<u>\$ 5,195,883</u>	<u>\$ 4,801,163</u>

Support To:

Scientists	496,431	473,457	454,053	477,970	427,304
Postdoctoral Programs	163,896	158,528	162,132	175,680	163,239
Graduate Students	585,308	544,513	538,233	546,084	475,315
	<u>\$ 1,245,635</u>	<u>\$ 1,176,498</u>	<u>\$ 1,154,418</u>	<u>\$ 1,199,734</u>	<u>\$ 1,065,858</u>

Outputs & Outcomes:

Number of:

Awards Actions	23,000	22,000	22,000	23,000	23,000
Senior Researchers	41,000	32,000	32,000	31,000	30,000
Other Professionals	13,000	11,000	12,000	15,000	12,000
Postdoctoral Associates	6,000	5,000	6,000	6,000	6,000
Graduate Students	35,000	26,000	27,000	29,000	27,000
Undergraduate Students	23,000	27,000	33,000	35,000	32,000
K-12 Students	11,000	8,000	11,000	14,000	14,000
K-12 Teachers	61,000	59,000	74,000	86,000	85,000

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

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

NSF's Human Capital investments focus principally on education and training, toward a goal of creating a diverse, internationally competitive and globally engaged workforce of scientists, engineers and well-prepared citizens. NSF supports activities to improve formal and informal science, mathematics, engineering and technology education at all levels, as well as public science literacy projects that engage people of all ages in life-long learning. The incremental decrease in the net costs of Research and Human Capital Activities reflects a decrease in education and training activities. The increase in support to scientists, postdoctoral programs, and graduate students and the increase in the number of people directly involved in NSF-supported activities primarily reflect the increase funding in basic and applied research.

Required Supplementary Information
Deferred Maintenance

Deferred Maintenance (Amounts in Thousands)

NSF performs condition assessment surveys in accordance with FASAB Standards No. 6 and No. 14 for capitalized property, plant and equipment to determine if any maintenance is needed to keep an asset in an acceptable condition or restore an asset to a specific level of performance. NSF considers deferred maintenance to be any maintenance that is not performed on schedule, unless it is determined from the condition of the asset that scheduled maintenance does not have to be performed. Deferred maintenance also includes any other type of maintenance that, if not performed, would render the PP&E non-operational. Circumstances such as non-availability of parts or funding are considered reasons for deferring maintenance.

NSF considered whether any scheduled maintenance necessary to keep fixed assets and capital equipment of the agency in an acceptable condition was deferred at the end of the period for FY 2007 and FY 2006. Assets deemed to be in excellent, good, or fair condition are considered to be in acceptable condition. Assets in poor condition are in unacceptable condition and the deferred maintenance required to get them to an acceptable condition are reported. NSF determines the condition of an asset in accordance with standards comparable to those used in the private industry. Due to the environment and remote location of Antarctica, all deferred maintenance on assets in poor condition is considered critical in order to maintain operational status.

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

At September 30, 2006, NSF determined that scheduled maintenance on 9 items of Antarctic equipment in poor condition was not completed and was deferred or delayed for a future period. The largest dollar amount of deferred maintenance for any single item in poor condition approximated \$60. The items included light and heavy mobile equipment. All of the equipment is considered critical to NSF operations and estimated to require \$82 in maintenance.

Required Supplementary Information

Budgetary Resources by Major Budget Accounts

In the following table, NSF budgetary information for the fiscal years ended September 30, 2007 and 2006, as presented in the Statement of Budgetary Resources, is disaggregated for each of NSF's major budget accounts.

Combining Statement of Budgetary Resources (page 1 of 2)

2007
(Amounts in Thousands)

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

Combining Statement of Budgetary Resources (page 2 of 2)

2007
(Amounts in Thousands)

Change in Obligated Balances

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

Combining Statement of Budgetary Resources (page 1 of 2)

2006
(Amounts in Thousands)

	<u>Research and Related</u>	<u>Education</u>	<u>Major Research Equipment</u>	<u>OIG, S&E, and NSB</u>	<u>Special and Donated</u>	<u>Total</u>
Budgetary Resources						
Unobligated Balance - Brought Forward, October 1	\$ 56,813	29,232	45,682	7,661	104,286	\$ 243,674
Recoveries of Prior Year Obligations	26,789	12,766	28	2,121	3,077	44,781
Budget Authority						
Appropriation	4,387,520	807,000	193,350	265,500	136,744	5,790,114
Spending Authority from Offsetting Collections:						
Earned						
Collected	104,819	14,839	-	4,506	1	124,165
Change in Receivable from Federal Sources	474	1,141	-	90	-	1,705
Change in Unfilled Customer Orders						
Advance Received	(2,192)	(11,385)	-	-	-	(13,577)
Without Advance from Federal Sources	(15,945)	1,492	-	(5)	-	(14,458)
Subtotal - Budget Authority	4,474,676	813,087	193,350	270,091	136,745	5,887,949
Nonexpenditure Transfers, Net	7,725	-	-	250	-	7,975
Permanently Not Available	(75,524)	(19,467)	(2,469)	(5,369)	-	(102,829)
Total Budgetary Resources	\$ 4,490,479	835,618	236,591	274,754	244,108	\$ 6,081,550
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 4,353,308	799,721	233,814	262,825	127,821	\$ 5,777,489
Reimbursable	87,401	8,604	-	4,512	-	100,517
Total Obligations Incurred	4,440,709	808,325	233,814	267,337	127,821	5,878,006
Unobligated Balance - Apportioned	3,722	128	2,777	1,035	113,210	120,872
Unobligated Balance - Not Available	46,048	27,165	-	6,382	3,077	82,672
Total Status of Budgetary Resources	\$ 4,490,479	835,618	236,591	274,754	244,108	\$ 6,081,550

Combining Statement of Budgetary Resources (page 2 of 2)

2006
(Amounts in Thousands)

Change in Obligated Balances

Obligated Balance, Net							
Unpaid Obligations - Brought forward,							
October 1	5,599,212	1,556,429	211,273	52,485	150,795	7,570,194	
Less: Uncollected Customer Payments from							
Federal Sources Brought Forward, October 1	(130,325)	(9,188)	-	(170)	-	(139,683)	
Total Unpaid Obligated Balance, Net	5,468,887	1,547,241	211,273	52,315	150,795	7,430,511	
Obligations Incurred	4,440,709	808,325	233,814	267,337	127,821	5,878,006	
Less: Gross Outlays	(4,244,939)	(882,529)	(180,929)	(261,280)	(86,401)	(5,656,078)	
Less: Recoveries of Prior Year Unpaid							
Obligations, Actual	(26,789)	(12,766)	(28)	(2,121)	(3,077)	(44,781)	
Change in Uncollected Customer Payments							
from Federal Sources	15,470	(2,632)	-	(85)	-	12,753	
Subtotal	\$ 5,653,338	1,457,639	264,130	56,166	189,138	\$ 7,620,411	
Obligated Balance, Net - End of Period							
Unpaid Obligations	5,768,192	1,469,459	264,130	56,422	189,138	7,747,341	
Less: Uncollected Customer							
Payments from Federal Sources	(114,854)	(11,820)	-	(256)	-	(126,930)	
Total Unpaid Obligated Balance, Net - End of Period	\$ 5,653,338	1,457,639	264,130	56,166	189,138	\$ 7,620,411	
Net Outlays							
Gross Outlays	4,244,938	882,529	180,930	261,280	86,401	5,656,078	
Less: Offsetting Collections	(102,627)	(3,454)	-	(4,506)	(1)	(110,588)	
Less: Distributed Offsetting Receipts	-	-	-	-	(4,207)	(4,207)	
Net Outlays	\$ 4,142,311	879,075	180,930	256,774	82,193	\$ 5,541,283	

OTHER FINANCIAL REPORTING INFORMATION

Debt Collection Improvement Act of 1996

Net Accounts Receivable totaled \$24,808 thousand at September 30, 2007. Of that amount, \$24,561 thousand is due from other federal agencies. The remaining \$247 thousand is due from the public. NSF fully participates in the Department of the Treasury Cross-Servicing Program. In accordance with the Debt Collection Improvement Act, this program allows NSF to refer debts that are delinquent more than 180 days to the Department of the Treasury for appropriate action to collect those accounts. In FY 2004, OMB issued M-04-10, *Memorandum on Debt Collection Improvement Act Requirements* which reminded agencies of their responsibility to comply with the policies for writing-off and closing-out debt. Based on this memo, NSF has now incorporated the policy of writing-off delinquent debt more than two years old. Additionally, NSF seeks Department of Justice concurrence for action on items over \$100,000.

Cash Management Improvement Act (CMIA)

In FY 2007, NSF had no awards covered under CMIA Treasury-State Agreements. NSF's FastLane system with grantee draws of cash make the timeliness of payments issue under the Act essentially not applicable to the agency. No interest payments were made in FY 2007.

