

SECTION 3

**FINANCIAL SECTION**

**A Message from the Chief Financial Officer**



I am pleased to present the National Archives and Records Administration (NARA) consolidated financial statements for the fiscal year 2010 Performance and Accountability Report. For the fifth consecutive year, an independent auditor has rendered an unqualified opinion on the NARA financial statements and identified no material weaknesses over our financial reporting.

During FY 2010, we successfully enhanced our procedures in the property accounting area to address a significant deficiency in internal control over financial reporting, and we continued with the implementation of internal controls in the area of personal property management including the implementation of a new property accounting system.

This year we also continued to streamline and improve our financial reporting processes, simplifying and accelerating the process for estimating accrued accounts payable, and achieving higher response rate and accuracy.

NARA is continuing its effort to address the ongoing, ever evolving, challenge related to Information Technology security facing us, along with other Federal and private entities, given the rapid pace of technological changes.

We took aggressive steps to resolving our holdings security material weakness by creating a new Holdings Protection team whose charter is to assist program managers across NARA to assess the risks and develop appropriate compensating internal controls to protect our holdings.

I wish to acknowledge our staff for their dedication to NARA's mission and their diligent efforts in maintaining the unqualified opinion on our financial statements. We extend our appreciation to our financial service provider for their continued and consistent professional support.

Even as financial oversight and accountability requirements grow more complex and challenging, NARA is steadfastly committed to improving financial management and producing accurate and reliable financial statements.

A handwritten signature in black ink, appearing to read 'RJ', with a long, sweeping flourish extending to the right.

Richard Judson  
Acting Assistant Archivist for Administration and  
Chief Financial Officer

## Auditor's Reports (FY 2010)

### *Inspector General's Summary*

**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION  
ANNUAL FINANCIAL STATEMENT  
FISCAL YEAR 2010**

**OFFICE OF THE INSPECTOR GENERAL  
COMMENTARY AND SUMMARY**

This audit report contains the Annual Financial Statements of the National Archives and Records Administration (NARA) for the fiscal years ended September 30, 2010 and 2009. We contracted with the independent certified public accounting firm of Cotton & Company, LLP (C&C) to perform the fiscal years 2010 and 2009 audits. The audit was done in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable provisions of the OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements*, as amended, and the GAO/PCIE *Financial Audit Manual*.

In its audit of NARA's financial statements, C&C's opinion states that the financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2010 and 2009, and its net cost, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

C&C reported one significant deficiency<sup>1</sup> in internal control over financial reporting in the area of Information Technology. C&C reported no material weaknesses<sup>2</sup> and disclosed no instances of noncompliance with certain provisions of laws and regulations.

In connection with the contract, we reviewed C&C's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, as we do not express, opinions on NARA's financial statements or conclusions about the effectiveness of internal control; or conclusions on compliance with laws and regulations. C&C is responsible for the attached auditor's report dated November 12, 2010, and the conclusions expressed in the report. However, our review disclosed no instances where C&C did not comply, in all material respects, with generally accepted government auditing standards.

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<sup>1</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>2</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**Independent Auditor's Report (FY 2010)**



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The Inspector General  
National Archives and Records Administration

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying consolidated balance sheet of the National Archives and Records Administration (NARA) as of September 30, 2010 and 2009, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of NARA management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of NARA as of September 30, 2010 and 2009, and its net cost, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2010, on our consideration of NARA's internal control over financial reporting, and on our tests of NARA's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing on internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report, in considering the results of our audits.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this information. We did not, however, audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from the Archivist, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

COTTON & COMPANY LLP

Colette Y. Wilson  
Partner



Alexandria, Virginia  
November 12, 2010



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The Inspector General  
National Archives and Records Administration

#### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the financial statements of the National Archives and Records Administration (NARA) as of September 30, 2010 and 2009, and have issued our report thereon dated November 12, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

In planning and performing our audits of NARA's financial statements as of and for the year ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered NARA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NARA's internal control. Accordingly, we do not express an opinion on the effectiveness of NARA's internal control.

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

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

#### INFORMATION TECHNOLOGY

During Fiscal Year (FY) 2010, NARA continued to make improvements in its information technology (IT) control environment by addressing recommendations made in previous audits. Improvements are still needed in the IT control areas of access controls and configuration management, as noted below and in Appendix A to this report.

In addition, contingency planning and security management issues identified in prior years also remain open. Deficiencies identified during the FY 2010 financial statement audit are discussed below. These issues, combined with open recommendations from the prior-year financial statement audit (see Appendix A), collectively represent a significant deficiency in internal control over financial reporting.

#### Access Controls

Access controls provide reasonable assurance that access to computer resources is reasonable and restricted to authorized individuals. NARA's procedures for creating, identifying and authenticating, and providing accountability over NARANet accounts did not ensure that all accounts were properly authorized. Specific issues identified during testing are discussed below.

**Account Creation.** NARA has not implemented sufficient account creation controls to ensure that all new NARANet accounts are requested and authorized by a user's supervisor, or that the help desk ticket/access form process is properly followed. In our tested sample of new accounts, we noted the following issues:

- Proper documentation did not exist to support the creation of the account
- Accounts were created without first obtaining adequate supervisory approval
- Accounts were initiated by the end-user

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3: *Recommended Security Controls for Federal Information Systems and Organizations*, requires the following:

#### AC-2 ACCOUNT MANAGEMENT

*The organization manages information system accounts, including:*

- a. *Identifying account types (i.e., individual, group, system, application, guest/anonymous, and temporary);*
- b. *Establishing conditions for group membership;*
- c. *Identifying authorized users of the information system and specifying access privileges;*
- d. *Requiring appropriate approvals for requests to establish accounts;...*
- i. *Granting access to the system based on: (i) a valid access authorization; (ii) intended system usage; and (iii) other attributes as required by the organization or associated missions/business functions; and*
- j. *Reviewing accounts [Assignment: organization-defined frequency].*

Without effective account creation/authorization controls in place, NARA cannot ensure that current employees are not requesting unapproved and unauthorized access, potentially making them unauthorized members of groups that can access files and spreadsheets stored on financial share drives. NARA does require a badge to obtain a network account, which serves as a compensating control to ensure this weakness cannot be exploited by an individual who does not already have access to NARA facilities.

**Recommendation 1.** We recommend that the NARA Chief Information Officer (CIO) require a record of logged-in users creating account requests to show that request are being generated by a supervisor, not the user.

**Identification and Authentication.** Identification and Authentication controls provide reasonable assurance that individual users are uniquely identified and authenticated for all accesses other than those explicitly identified and documented by an organization. To properly address this requirement, the unique identification of individuals with access to group accounts (e.g., shared privilege accounts) must be considered for detailed accountability of activity.

NARA has not implemented sufficient Identification and Authentication controls to ensure that the Order Fulfillment and Accounting System (OFAS) application uniquely identifies all application users. We identified a shared domain administrator account within OFAS that is used as an OFAS support team group account with a shared password to perform activities in the OFAS application.

NIST SP 800-53, Revision 3, requires the following:

*IA-2 IDENTIFICATION AND AUTHENTICATION (ORGANIZATIONAL USERS)*

*The information system uniquely identifies and authenticates organizational users (or processes acting on behalf of organizational users).*

*Supplemental Guidance: Organizational users include organizational employees or individuals the organization deems to have equivalent status of employees (e.g., contractors, guest researchers, individuals from allied nations). Users are uniquely identified and authenticated for all accesses other than those accesses explicitly identified and documented by the organization in AC-14. Unique identification of individuals in group accounts (e.g., shared privilege accounts) may need to be considered for detailed accountability of activity.*

Without the ability to uniquely identify and authenticate individual users of the shared Domain Admin account, accountability for activities and events performed by the account cannot be established.

**Recommendation 2.** We recommend that the NARA CIO assign one individual to the shared account, or split responsibilities of the shared account to additional administrator accounts, to allow accountability of administrator activities to be established.

**Audit and Accountability.** Audit and Accountability controls provide reasonable assurance that an organization is complying with required industry standards, as well as its own policies and procedures. NARA has not implemented sufficient audit and accountability controls over audit settings and logging and monitoring, as described below.

- **Audit Settings.** Audit Settings within an information system define what events or activities generate an audit log and what information about the event is recorded is included in the log. During the audit, we noted that NARANet's audit settings were not configured to log group membership add and delete activities.
- **Logging and Monitoring.** Logging and Monitoring is the process an organization follows to track, review, and escalate (if necessary) the events captured in audit logs generated by the system/OS/network/application. During the audit, we noted that NARA's Audit and Accountability Methodology is not being enforced or followed. General Support System (GSS) and application-specific issues noted during testing are discussed below:
  - **OFAS.** Controls were not adequate to ensure that the OFAS application was configured to log all required auditable events (per NARA IT Security Methodology for Audit and Accountability) and that procedures were implemented to appropriately review these logs on a regular basis. OFAS was reconfigured on September 29, 2010, to begin to log account creations, deletions, and modifications. Before this, settings were not in place, and there is still no formal process for reviewing the logs periodically.
  - **NARANet.** NARA personnel reviewed network activity logs on an as-needed basis, but not routinely and periodically. Management is currently working to address this by implementing a log consolidation and monitoring tool, Netforensics.
  - **RCPBS.** Controls were not adequate to ensure that the Records Center Program Billing System (RCPBS) application was configured to log all required auditable events (per NARA IT Security Methodology for Audit and Accountability) and that procedures were implemented to appropriately review these logs on a regular basis. We found no evidence to show that RCPBS is configured to log all required events, or that standard log monitoring procedures were established and are being performed.

NIST SP 800-53, Revision 3, requires the following:

*AU-6 AUDIT REVIEW, ANALYSIS, AND REPORTING*

*The organization:*

- a. Reviews and analyzes information system audit records [Assignment: organization-defined frequency] for indications of inappropriate or unusual activity, and reports findings to designated organizational officials; and*
- b. Adjusts the level of audit review, analysis, and reporting within the information system when there is a change in risk to organizational operations, organizational assets, individuals, other organizations, or the Nation based on law enforcement information, intelligence information, or other credible sources of information.*

Additionally, NARA IT Security Methodology for Audit and Accountability, dated July 15, 2009, requires the following:



## 2 AUDITABLE EVENTS [AU-2]

*This section describes how NARA meets the NARA IT Security Architecture control [AU-2] for Auditable Events.*

*NARA's security policy for Auditable Events is as follows:*

*NARA Office of IT Services (NH) develops, disseminates, and at least annually reviews and updates a formal, documented audit and accountability policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among NARA entities, and compliance; and formal, documented procedures to facilitate the implementation of the audit and accountability policy and associated audit and accountability controls.*

*NARA's security requirements for Auditable Events are as follows:*

*[AU-2.1] Each information system generates audit records for the following events:*

- *Startup and shutdown*
- *Account Creation*
- *Authentication*
- *Authorization and Permission granting/changing*
- *Actions by trusted users*
- *Password changes for privileged users*
- *Unsuccessful login attempts*

*[AU-2.2] NH shall identify important events which need to be audited as significant and relevant to the security of each information system. System Owner shall identify any additional specific events relevant to the system's sensitivity level. Audit records shall be generated at various levels of abstraction, including at the packet level as information traverse the network. System Owner shall specify in the SSP which information system components carry out auditing activities. The security audit function shall coordinate with the network health and status monitoring function to enhance the mutual support between the two functions by the selection of information to be recorded by each function.*

Without appropriately configured audit settings and an effective logging and monitoring process, management cannot ensure that only appropriate accesses and activities are taking place.

**Recommendation 3.** We recommend that the NARA CIO:

- Reconfigure audit settings within the NARANet Novell environment to log group membership add and delete activities.
- Continue with the implementation of Netforensic and, once in place, ensure that procedures exist for identifying key events that will be alerted to and reviewed by management on a periodic basis.
- Continue with efforts to audit account creations, deletions, and modifications within OFAS and develop standard procedures for regularly reviewing and monitoring application audit logs.

- Enable logging of all events within RCPBS, required by NARA IT Security Methodology for Audit and Accountability, and develop standard procedures for regularly reviewing and monitoring application activity logs.

#### **Configuration Management**

Configuration Management controls provide reasonable assurance that changes to an organization's IT infrastructure, hardware, or software are properly managed and tracked, and that baseline configurations are defined and configured within the production environment. During testing, we identified issues with NARA's baseline configuration practices. They are discussed below.

Configuration baselines provide current specifications for how an information system/network device, application, hardware, and software are built. Additionally, baselines provide individuals with configuration management responsibilities within the organization, a benchmark to compare against actual configurations.

NARA has developed configuration instructions and has a beginning baseline for configuration for switches. Configuration instructions or baselines are not, however, in place for NARA's routers and firewalls. The current baseline is not based on and does not address all areas in approved checklists for router and firewall platforms and devices in use contained in NIST SP 800-70, *National Checklist Program for IT Products – Guidelines for Checklist Users and Developers*.

NIST SP 800-53, Revision 3, requires the following:

#### *CM-6 CONFIGURATION SETTINGS*

*The organization:*

- Establishes and documents mandatory configuration settings for information technology products employed within the information system using [Assignment: organization-defined security configuration checklists] that reflect the most restrictive mode consistent with operational requirements;*
- Implements the configuration settings;*
- Identifies, documents, and approves exceptions from the mandatory configuration settings for individual components within the information system based on explicit operational requirements; and*
- Monitors and controls changes to the configuration settings in accordance with organizational policies and procedures.*

Additionally, NARA IT Security Methodology for Configuration Management, dated January 13, 2010, requires the following:

#### *6 Configuration Settings [CM-6]*

*This section describes how NARA meets the NARA IT Security Architecture control [CM-6] for Configuration Settings.*

*NARA's security policy for Configuration Settings is as follows:*

*NARA Office of Information Services (NH) establishes mandatory configuration settings for information technology products employed within the information system, configures the security settings of information technology products to the most restrictive mode consistent with operational requirements, documents the configuration settings, and enforces the configuration settings in all components of the information system.*

*NARA's security requirements for Configuration Settings are as follows:*

*[CM-6.1] NH shall establish mandatory configuration settings for information technology products employed within the information system, configure the default security settings of information technology products to the most restrictive mode consistent with operational requirements, document the configuration settings, and enforce the configuration settings in all components of the information system.*

*[CM-6.2] NH shall monitor and control changes to the configuration settings in accordance with NARA policies and procedures.*

*[CM-6.3] NIST SP 800-70 shall be used for guidance on producing and using configuration settings (i.e., checklists) for information technology products employed in NARA information systems.*

*[CM-6.4] For high integrity information systems, NARA shall employ mechanisms to centrally manage, apply and verify configuration settings.*

The absence of documented full configuration baselines increases the risk that: unauthorized access may occur, security weaknesses could exist within the NARANet architecture and not be detected by management in a timely manner, and computing resources are not in compliance with established baselines.

**Recommendation 4.** We recommend that the NARA CIO improve upon NARA's current router and firewall build process by updating their standard configuration file to be based on NIST-approved security checklists for router and firewall platforms and devices in use by NARA. We also recommend that the final standard configuration be documented and compared against devices to monitor for configuration compliance on a periodic basis.

#### STATUS OF PRIOR-YEAR RECOMMENDATIONS

We reviewed the status of NARA's corrective actions with respect to the significant deficiencies from the prior-year report on internal control. Appendix A to this report provides details of the status of recommendations.

NARA's management response to the significant deficiency identified in our report is included as Appendix B to this report. We did not audit NARA's response and, accordingly, we provide no opinion on it.

In addition to the significant deficiency described above, we noted certain matters involving internal control and its operation that will be reported to NARA management in a separate letter.

This report is intended solely for the information and use of management of NARA, NARA Office of Inspector General, Government Accountability Office, OMB, and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

COTTON & COMPANY LLP



Colette Y. Wilson, CPA  
Partner

Alexandria, Virginia  
November 12, 2010

**APPENDIX A**  
**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION**  
**STATUS OF PRIOR-YEAR RECOMMENDATIONS**  
**SEPTEMBER 30, 2010**

APPENDIX A  
 NATIONAL ARCHIVES AND RECORDS ADMINISTRATION  
 STATUS OF PRIOR-YEAR RECOMMENDATIONS  
 SEPTEMBER 30, 2010

Condition/Audit Area and Recommendations	Status as of September 30, 2010
<b>Personal Property</b>	
1. Finalize and implement its personal property policies and procedures manual during the first quarter of FY 2010.	Closed
2. Provide personal property-related training to NARA employees.	Closed
3. Design and implement monitoring procedures to ensure NARA employees adhere to personal property-related policies and procedures.	Closed
4. Design and implement procedures to ensure the accountability of assets in the custody of contractors.	Closed
5. Continue to implement personal property accounting functionality within the Maximo system, and in doing so, ensure that the application has adequate functionality to meet the requirements articulated by the Joint Financial Management Improvement Program (JFMIP) in its document titled, Property Management Systems Requirements.	Open, however no longer a significant deficiency. This deficiency will be reported to management in a separate report.
6. Perform a risk assessment to determine if it has sufficient procedures in place to mitigate risks posed by the manual processes used to account for personal property transactions.	Closed
7. Design and implement controls, as necessary, to address significant risks identified during the risk assessment.	Closed
<b>Access Controls</b>	
8. Implement a process for managing NARANET accounts that:	Partially Open (Termed users are not having access removed in a timely manner. Generic accounts are not catalogued and assigned ownership to an individual.)
a) Requires a recertification of all system accounts at least annually.	
b) Ensures all accounts are tied to a specific individual who has the responsibility for managing the account, and determining the ongoing need for non-login accounts.	
c) Identifies inactive accounts on a regular basis and removes access in a timely manner.	
d) Ensures all access and privileges of terminated employees are promptly removed.	
9. Implement a more restrictive password age control for NARANET that is consistent with requirements for Federal information systems.	Closed

Condition/Audit Area and Recommendations	Status as of September 30, 2010
10. Implement a process for managing RCPBS accounts that:	
a) Requires a recertification of all system accounts at least annually.	Open
b) Identifies inactive accounts on a regular basis and removes or disables access in a timely manner.	Closed
c) Implements a more restrictive password age control that is consistent with requirements for federal information systems.	Open
11. Implement compensating logging and monitoring controls for PPMS to ensure that the risk of unauthorized access is mitigated.	Closed
12. Enforce its current policies and procedures used to manage systems and accounts to ensure all access and privileges of terminated employees are promptly removed.	Closed (see 8 d), above)
13. Ensure that supervisors receive training in their exit clearance process responsibilities, including alerting applicable personnel when employees and contractors under their supervision no longer require access.	Open
14. Continue effort to finalize the contract with the independent contractor to provide an assessment of NARA's incident response program, provide targeted training to NARA personnel involved with incident response, and to conduct simulated exercises.	Closed
15. Develop and implement policies and procedures that prohibit RCPBS users from having multiple accounts as well as the ability to enter and approve their own transactions.	Open
<b><u>Contingency Planning</u></b>	
16. Fully implement a contingency planning policy consistent with guidance provided in NIST SP 800-34, Contingency Planning Guide for Information Technology Systems. The policy should include requirements for updating the contingency plan to reflect current operating conditions.	Closed
17. Update the contingency and disaster recovery plans for OFAS to reflect current operating conditions.	Closed
18. Update the contingency and disaster recovery plans for RCPBS to reflect current operating conditions.	Open
<b><u>Security Management</u></b>	
19. Complete risk assessments for all NARNET components.	Open
20. Finalize and approve security plans for all NARANET components.	Open

<b>Condition/Audit Area and Recommendations</b>	<b>Status as of September 30, 2010</b>
21. Certify each NARANET component, then certify and accredit the entire NARANET general support system.	Open
22. Implement policies and procedures which require the completion of security and awareness training before being granted access to NARA information systems.	Open



**APPENDIX B**  
**MANAGEMENT COMMENTS**



NATIONAL  
ARCHIVES

Date: November 9, 2010  
To: Paul Brachfeld, OIG  
From: David S. Ferriero, N  
Subject: FY10 Management Response to Audit Report

Thank you for the opportunity to review and comment on the draft reports entitled, Independent Auditor's Report on Internal Control and Independent Auditor's Report on Compliance with Laws and Regulations. We appreciate your efforts and cooperation throughout this audit process.

We are pleased that the Independent Auditor recognizes our progress, as evidenced by an "unqualified" audit opinion on this year's financial statements, downgrading of prior year significant deficiency in personal property management, and recognition of NARA's efforts in addressing the Information Technology control environment.

While challenges remain, I believe NARA has demonstrated its commitment to improved financial management and ability to produce accurate and reliable financial statements. NARA will continue to work diligently to address its challenges, as well as to further improve its financial management processes and related internal controls. We would like to again thank the Office of Inspector General and the Cotton & Company, LLP for working with NARA staff in a professional and dedicated manner.

DAVID S. FERRIERO  
Archivist of the United States

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## Financial Statements and Additional Information (FY2010)

### *Principal Statements*

#### *Consolidated Balance Sheet* *As of September 30, 2010 and 2009* *(in thousands)*

	2010	2009
<b>Assets (Note 2)</b>		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 284,115	\$ 256,857
Investments (Note 3)	9,894	11,719
Accounts receivable (Note 4)	14,189	14,789
Total intragovernmental	308,198	283,365
Cash	53	49
Investments (Note 3)	26,914	23,201
Accounts receivable, net (Note 4)	325	328
Inventory, net (Note 5)	1,029	1,024
General property, plant and equipment, net (Note 6)	444,405	420,404
Other Assets	759	814
<b>Total assets</b>	<b>\$ 781,683</b>	<b>\$ 729,185</b>
Stewardship PP&E (Note 7)	-	-
<b>Liabilities</b>		
Intragovernmental		
Accounts payable	\$ 6,096	\$ 4,632
Other (Note 8, 10)	5,722	5,698
Total intragovernmental	11,818	10,330
Accounts payable	50,290	30,328
Debt held by the public (Note 8, 9)	180,981	193,942
Federal employee benefits (Note 8, 10)	11,241	11,097
Other (Note 8, 10)	27,511	24,212
Total liabilities	281,841	269,909
Commitments and Contingencies (Note 12)	-	-
<b>Net Position</b>		
Unexpended appropriations - other funds	196,770	193,346
Cumulative results of operations - earmarked funds (Note 13)	36,961	35,018
Cumulative results of operations - other funds	266,111	230,912
Total net position	\$ 499,842	\$ 459,276
<b>Total liabilities and net position</b>	<b>\$ 781,683</b>	<b>\$ 729,185</b>

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

**National Archives and Records Administration**  
**Performance and Accountability Report, FY 2010**

***Consolidated Statement of Net Cost***  
***For the years ended September 30, 2010 and 2009***  
*(in thousands)*

	<u>2010</u>	<u>2009</u>
<b>Program Costs (Note 14)</b>		
<b>Records and Archives-Related Services</b>		
Gross costs	\$ 386,529	\$ 357,421
Less: Earned revenues	(361)	(977)
<b>Total Net Records and Archives-Related Services Program Costs</b>	<u>386,168</u>	<u>356,444</u>
<b>Trust and Gift Funds</b>		
Gross costs (excluding heritage asset renovation)	15,338	14,432
Less: Earned revenues	(17,230)	(17,912)
<b>Total Net Trust and Gift Fund Program Costs</b>	<u>(1,892)</u>	<u>(3,480)</u>
<b>Electronic Records Archives</b>		
Gross costs	17,127	17,539
Less: Earned revenues	-	-
<b>Total Net Electronic Records Archives Program Costs</b>	<u>17,127</u>	<u>17,539</u>
<b>National Historical Publications and Records Commission Grants</b>		
Gross costs	8,773	6,434
Less: Earned revenues	-	-
<b>Total Net National Historical Publications and Records Commission Grants Program Costs</b>	<u>8,773</u>	<u>6,434</u>
<b>Archives Facilities and Presidential Libraries Repairs and Restoration</b>		
Gross costs (excluding heritage asset renovation)	(287)	1,947
Heritage asset renovation costs (Note 15)	29,855	21,940
Less: Earned revenues	-	-
<b>Total Net Archives Facilities and Presidential Libraries Repairs and Restoration Program Costs</b>	<u>29,568</u>	<u>23,887</u>
<b>Revolving Fund Records Center Storage and Services</b>		
Gross costs	172,655	163,650
Less: Earned revenues	(162,283)	(151,572)
<b>Total Net Revolving Fund Records Center Storage and Services Program Costs</b>	<u>10,372</u>	<u>12,078</u>
<b>Net Cost of Operations</b>	<u><u>\$ 450,116</u></u>	<u><u>\$ 412,902</u></u>

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

***Consolidated Statement of Changes in Net Position***  
*For the years ended September 30, 2010*  
*(in thousands)*

	2010		
	Earmarked Funds	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations</b>			
Beginning Balance	\$ 35,018	\$ 230,912	\$ 265,930
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	462,482	462,482
Non-exchange Revenue	670	-	670
Donations and forfeitures of cash and cash equivalents	1,512	-	1,512
Transfers-in/out without reimbursement	(608)	608	-
Other	108	-	108
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed financing	543	20,940	21,483
Other	1,003	-	1,003
Total Financing Sources	3,228	484,030	487,258
Net Cost of Operations	1,285	448,831	450,116
Net Changes	1,943	35,199	37,142
<b>Cumulative Results of Operations</b>	<b>36,961</b>	<b>266,111</b>	<b>303,072</b>
<b>Unexpended Appropriations</b>			
Beginning Balance	-	193,346	193,346
<b>Budgetary Financing Sources</b>			
Appropriations received	-	469,870	469,870
Other adjustments	-	(3,964)	(3,964)
Appropriations used	-	(462,482)	(462,482)
Total Budgetary Financing Sources	-	3,424	3,424
Total Unexpended Appropriations	-	196,770	196,770
<b>Net Position</b>	<b>\$ 36,961</b>	<b>\$ 462,881</b>	<b>\$ 499,842</b>

The elimination column was omitted because there was no elimination activity.

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

***Consolidated Statement of Changes in Net Position***  
*For the years ended September 30, 2009*  
*(in thousands)*

	2009		
	Earmarked Funds	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations</b>			
Beginning Balance	\$ 31,119	\$ 217,694	\$ 248,813
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	409,119	409,119
Non-exchange Revenue	691	-	691
Donations and forfeitures of cash and cash equivalents	1,984	-	1,984
Transfers-in/out without reimbursement	(616)	616	(0)
Other	31	-	31
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed financing	466	16,639	17,105
Other	1,089	-	1,089
Total Financing Sources	3,645	426,374	430,019
Net Cost of Operations	(254)	413,156	412,902
Net Changes	3,899	13,218	17,117
<b>Cumulative Results of Operations</b>	<b>35,018</b>	<b>230,912</b>	<b>265,930</b>
<b>Unexpended Appropriations</b>			
Beginning Balance	-	147,697	147,697
<b>Budgetary Financing Sources</b>			
Appropriations received	-	459,277	459,277
Other adjustments	-	(4,509)	(4,509)
Appropriations used	-	(409,119)	(409,119)
Total Budgetary Financing Sources	-	45,649	45,649
Total Unexpended Appropriations	-	193,346	193,346
<b>Net Position</b>	<b>\$ 35,018</b>	<b>\$ 424,258</b>	<b>\$ 459,276</b>

The elimination column is omitted as no elimination activity impacts this statement.

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

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***Combined Statement of Budgetary Resources***  
*For the years ended September 30, 2010 and 2009*  
*(in thousands)*

	2010	2009
<b>Budgetary Resources</b>		
Unobligated balance brought forward, October 1:	\$ 97,826	\$ 64,985
Recoveries of prior year unpaid obligations	9,848	8,722
Budget Authority		
Appropriation	473,020	462,753
Spending authority from offsetting collections		
Earned		
Collected	201,692	186,804
Change in receivables from Federal sources	(546)	2,290
Change in unfilled customer orders		
Advance received	(386)	(622)
Without advance from Federal sources	12,310	6,833
Expenditure transfers from trust funds	799	771
Subtotal	686,889	658,829
Permanently not available	16,833	16,352
<b>Total budgetary resources</b>	<b>\$ 777,730</b>	<b>\$ 716,184</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred		
Direct	469,798	433,832
Reimbursable	197,721	184,527
Subtotal	667,519	618,359
Unobligated Balance		
Apportioned	91,618	78,342
Exempt from apportionment	5,129	7,220
Subtotal	96,747	85,562
Unobligated balance not available	13,464	12,263
<b>Total status of budgetary resources</b>	<b>\$ 777,730</b>	<b>\$ 716,184</b>
<b>Change in Obligated Balance</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 194,925	\$ 174,105
Less: Uncollected customer payments from Federal sources, brought forward October 1	(24,126)	(15,004)
Total unpaid obligated balance, net	170,799	159,101
Obligations incurred net	667,519	618,359
Less: Gross outlays	(632,854)	(588,817)
Less: Recoveries of prior year unpaid obligations, actual	(9,848)	(8,722)
Change in uncollected customer payments from Federal sources	(11,763)	(9,122)
Obligated balance, net, end of period		
Unpaid obligations	219,742	194,925
Less: Uncollected customer payments from Federal sources	(35,890)	(24,126)
Total, unpaid obligated balance, net, end of period	183,852	170,799
<b>Net Outlays</b>		
Gross outlays	632,854	588,817
Less: Offsetting collections	(202,106)	(186,954)
Less: Distributed offsetting receipts	(3,152)	(1,343)
Net Outlays	<b>\$ 427,596</b>	<b>\$ 400,520</b>

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

## Notes to Principal Statements

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

#### *A. Reporting Entity*

The National Archives was created by statute as an independent agency in 1934. On September 30, 1949, the Federal Property and Administrative Services Act transferred the National Archives to the General Services Administration (GSA), and its name was changed to National Archives and Records Services. It attained independence again as an agency in October 1984 (effective April 1, 1985) and became known as the National Archives and Records Administration (NARA).

NARA is our nation's records keeper. NARA safeguards records of all three branches of the Federal Government. NARA's mission is to ensure continuing access to the essential documentation of the rights of American citizens and the actions of their government, and to facilitate historical understanding of our national experience.

NARA is administered under the supervision of the Archivist of the United States. It comprises various Operating Administrations, each having its own management and organizational structure, which collectively provide services and access to the essential documentation. NARA's accompanying financial statements include accounts of all funds under NARA's control.

#### **General Funds**

- Operating Expenses
  - Records Services—Provides for selecting, preserving, describing, and making available to the general public, scholars, and Federal agencies the permanently valuable historical records of the Federal Government and the historical materials and Presidential records in Presidential Libraries; for preparing related publications and exhibit programs; and for conducting the appraisal of all Federal records.
  - Archives Related Services—Provides for the publication of the Federal Register, the Code of Federal Regulations, the U.S. Statutes-at-Large, and Presidential documents, and for a program to improve the quality of regulations and the public's access to them. This activity also includes the administration and reference service portions for the National Historical Publications and Records Commission.
  - The National Archives at College Park—Provides for construction and related services of the archival facility which opened to the public at the end of 1993.
- Electronic Records Archives—Provides for research, analysis, design, development and program management to build an Electronic Records Archive (ERA) that will ensure the preservation of and access to Government electronic records.
- Repairs and Restoration—Provides for the repair, alteration, and improvement of Archives facilities and Presidential Libraries nationwide. It funds the National Archives' efforts to provide adequate storage for holdings, to maintain its facilities in proper condition for public visitors, researchers, and employees in NARA facilities, and maintain the structural integrity of the buildings.
- National Historical Publications and Records Commission Grants—Provides for grants funding that the Commission makes, to local, state, and private institutions nationwide, to preserve and publish records that document American history.



#### **Intragovernmental Fund**

- Records Center Revolving Fund – Utilizes customer funding effectively to provide services on a standard price basis to Federal agency customers. The fund maintains low cost, quality storage and transfers, reference, re-file, and disposal services for records stored in regional service facilities. The program office develops transaction billing rates annually for the upcoming fiscal year. The rates are developed to ensure full cost recovery for the delivery of storage and services of records held by the fund for its customer agencies. The rate development process is reviewed for reasonableness by the revolving fund office and receives final approval from the Archivist. Adjustments, changes or additions to the rates are submitted to the Archivist for approval before implementation.

#### **Trust Funds**

- National Archives Gift Fund – The National Archives Trust Board solicits and accepts gifts or bequests of money, securities, or other personal property for the benefit of or in connection with the national archival and records activities administered by the National Archives and Records Administration (44 U.S.C. 2305).
- National Archives Trust Fund – The Archivist of the United States furnishes, for a fee, copies of unrestricted records in the custody of the National Archives (44 U.S.C. 2116). Proceeds from the sale of copies of microfilm publications, reproductions, special works and other publications, and admission fees to Presidential Library museums are deposited in this fund.

#### *B. Basis of Accounting and Presentation*

These statements have been prepared from the accounting records of NARA in conformity with accounting principles (GAAP) generally accepted in the United States, and the requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These statements are, therefore, different from the financial reports prepared by NARA, also subject to OMB directives, for the purposes of reporting and monitoring NARA's status of budget resources.

Transactions are recorded on both an accrual and budgetary basis of accounting. Under the accrual basis, 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 control over the use of Federal funds.

#### *C. Funds with the U.S. Treasury and Cash*

Funds with the U.S. Treasury primarily represent appropriated, revolving and trust funds. These funds may be used by NARA to finance expenditures. NARA's cash receipts and disbursements are processed by the U.S. Treasury.

Cash consists of petty cash imprest funds at Presidential Libraries and the National Archives regional and headquarters store locations, used to finance the cashiers' start-up cash.

#### *D. Accounts Receivable*

Accounts receivable primarily consists of amounts due from Federal agencies, which are expected to be collected, and therefore are not considered for allowance for uncollectible accounts. For amounts due from the public, NARA directly writes off uncollectible receivables based on an analysis of the outstanding balances.

#### *E. Investments in Securities*

Investments in Federal securities are made daily and are reported at cost.

NARA also employs the services of a third party capital management firm to monitor and manage the endowments, received pursuant to Title 44 U.S.C. section 2112, for the George Bush Library and Clinton Library. The purpose of the endowment is to provide income to offset the operations and maintenance costs of the corresponding Presidential library. Each endowment is reflected as a separate investment account in a Collective Fund. NARA also exercises its authority under Title 44 U.S.C. section 2306, to move a portion of federally held investments for the Presidential Libraries to

a third party investment firm, The Vanguard Group. All third party investments are recorded at fair value and interest income earned is recognized on a monthly basis.

*F. Inventories*

The National Archives Trust Fund inventories, which consist of merchandise, held for sale, are stated at the lower of cost or market, with cost determined using the average cost method. An allowance for damaged and obsolete goods is based on historical analysis and an evaluation of inventory turnover from year to year. Expenses are recorded when the inventories are sold.

*G. Property, Plant and Equipment*

NARA capitalizes property items with a unit cost equal to or exceeding \$50 thousand and a useful life exceeding two years. Depreciation expense is calculated using the straight-line method over the useful life. Property items not meeting the capitalization criteria are expensed.

NARA's PP&E falls into two categories: general PP&E and heritage assets. General PP&E items are used to provide general government goods and services. Heritage assets are defined as possessing significant educational, historic, cultural or natural characteristics, and are not included in the general PP&E. (See Note 7)

Multi-use heritage assets are heritage assets that are used predominantly for general government operations. The costs of acquisition, significant betterment or reconstruction of multi-use heritage assets are capitalized as general PP&E and depreciated, and are included on the Balance Sheet as general PP&E.

*H. Internal Use Software*

NARA capitalizes internal-use software development projects, where the total development cost is \$250 thousand or greater. Internal-use software includes commercial off-the-shelf (COTS) software and internally developed or contractor developed software. The estimated useful life is 5 years.

*I. Federal Employee Benefits*

*Employee Health and Life Insurance Benefits*

All permanent NARA employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP) and may continue to participate after retirement. Both of these programs require contributions from the employee based on the coverage options selected by the employee. NARA makes contributions for the required employer share through the Office of Personnel Management (OPM) to FEHBP and FEGLIP, which are recognized as operating expenses.

The Office of Personnel Management (OPM) administers and reports the liabilities for the post-retirement portion of these benefits. These costs are financed by OPM and imputed to all Federal agencies, including NARA. Using the cost factors supplied by OPM, NARA recognizes an expense for the future cost of postretirement health benefits and life insurance for its employees as imputed cost on the Statement of Net Costs and imputed financing sources on the Statement of Changes in Net Position.

*Employee Retirement Benefits*

All permanent NARA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). NARA makes the required employer contributions to CSRS and FERS and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses. The pension expense recognized in the financial statements equals the current service cost for NARA's employees for the accounting period less the amount contributed by the employees. OPM, the administrator of these plans, supplies NARA with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by NARA and its employees represents the amount being financed directly by OPM and is considered imputed financing to NARA;

appearing as an imputed cost on the Statement of Net Cost and an imputed financing source on the Statement of Changes in Net Position.

#### *Workers' Compensation Program*

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NARA for these paid claims.

Actuarial FECA liability represents the liability for expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. NARA computes its actuarial FECA liability based on the model provided by DOL and presents it as a liability to the public on the Balance Sheet because neither the costs nor reimbursements have been recognized by DOL. See Note 8.

#### *J. Accrued Annual, Sick and Other Leave*

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At the end of each fiscal year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. This liability is not covered by budgetary resources, as detailed in Note 8. Funding occurs in the year the leave is taken and payment is made for the appropriated funds. The trust and revolving funds, are fully funding the annual leave earned but not taken, and are including it in the total liabilities covered by budgetary resources.

Sick leave and other types of non-vested leave are expensed as taken. See Notes 8 and 10.

#### *K. Use of Estimates*

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

#### *L. Contingencies and Commitments*

NARA generally recognizes an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are deemed "remote" are not recognized or disclosed in the financial statements.

#### *M. Allocation of Program Management Cost*

NARA is comprised of various Operating Administrations, each having its own management and organizational structure. NARA allocates its general management and administrative support to its major components, Records and archives-related services and Revolving fund. General management costs are not allocated to the Trust and Gift Funds, since they are administered by the National Archives Trust Fund Board, which is an organization independent of, and not funded by, NARA (see Note 13). All other programs appearing on the Statement of Net Cost, such as Electronic Records Archives and National Historic Publications and Records Commission Grants are, in essence, a part of the Records and Archives-related services, which funds the related administrative costs. These sub-programs are shown separately for the purpose of demonstrating accountability and custodial responsibility for the funds received for these programs.

#### *N. Earmarked Funds*

NARA is subject to the Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, which requires separate identification of the earmarked

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funds on the Balance Sheet, Statement of Changes in Net Position, and further disclosures in a footnote (see Note 13). Earmarked funds are defined when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

*O. Subsequent Events*

We have evaluated subsequent events and transactions occurring after September 30, 2010 through the date of the auditors' opinion for potential recognition or disclosure in the financial statements. This is also the date that the financial statements were available to be issued.

*Note 2 – Fund Balance with Treasury*

<b>Fund balances (in thousands)</b>	2010	2009
Appropriated funds	\$ 258,240	\$ 230,544
Revolving fund	25,104	25,635
Trust fund	427	419
Gift fund	201	102
Other funds	143	157
<b>Total</b>	<b>\$ 284,115</b>	<b>\$ 256,857</b>

*Status of Fund Balances with Treasury*

Unobligated Balance		
Available	86,657	73,638
Unavailable	13,464	12,263
Obligated Balance not yet disbursed	183,851	170,799
Other funds	143	157
<b>Total</b>	<b>\$ 284,115</b>	<b>\$ 256,857</b>

Unavailable unobligated balance includes the following

Allotments - Expired Authority	\$ 13,464	\$ 12,263
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Restricted donations, included in the available unobligated and obligated balance above, are obligated in accordance with the terms of the donor. All donations to Presidential Libraries and the National Archives with specific requirements are considered restricted as to purpose. The endowments for the Presidential Libraries are restricted and have been obligated and invested in non-federal investments. The restricted balance as of September 30, 2010 is \$14,033 thousand (of which \$753 thousand is unobligated) and \$13,440 thousand as of September 30, 2009 (of which \$1,219 thousand is unobligated).

Other Funds represent non-entity FBWT funds, consisting of revenue collected and due to the Reagan and Clinton foundations, subject to revenue sharing agreements with the Trust Fund.

The unused fund balance of \$3,964 thousand in canceled appropriation for FY 2005 was returned to Treasury at the end of the fiscal year.

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*Note 3 – Investments*

Investments as of September 30, 2010 and 2009 consist of the following  
(in thousands)

<b>Amounts for 2010</b>					
	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable	\$ 9,894	\$ -	\$ 9,894	\$ -	\$ 9,894
<b>Total Intragovernmental</b>	<b>\$ 9,894</b>	<b>\$ -</b>	<b>\$ 9,894</b>	<b>\$ -</b>	<b>\$ 9,894</b>
<b>Other securities</b>					
Vanguard Dividend Growth Fund	734	5	739	60	799
Vanguard Small Cap Index Fund	393	1	394	36	430
Vanguard Intermediate Term Investment	11,880	-	11,880	819	12,699
Emerging Markets Stock Index Fund	974	9	983	86	1,069
Vanguard Developed Markets Index Fund	1,375	11	1,386	(193)	1,193
Vanguard Total Bond Market Index Fund	7,376	-	7,376	728	8,104
Vanguard Total Stock Market Index Fund	1,715	3	1,718	(148)	1,570
Vanguard PRIMECAP Core Fund	1,012	6	1,018	32	1,050
<b>Total Other</b>	<b>25,459</b>	<b>35</b>	<b>25,494</b>	<b>1,420</b>	<b>26,914</b>
<b>Total Investments</b>	<b>\$ 35,353</b>	<b>\$ 35</b>	<b>\$ 35,388</b>	<b>\$ 1,420</b>	<b>\$ 36,808</b>

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Amounts for 2009					
	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable	\$ 11,719	\$ -	\$ 11,719	\$ -	\$ 11,719
<b>Total Intragovernmental</b>	<b>\$ 11,719</b>	<b>\$ -</b>	<b>\$ 11,719</b>	<b>\$ -</b>	<b>\$ 11,719</b>
<b>Other securities</b>					
Vanguard Dividend Growth Fund	230	1	231	11	242
Vanguard Intermediate Term Investment - Admiral	11,799	-	11,799	(109)	11,690
Emerging Markets Stock Index Fund	791	12	803	(65)	738
Vanguard Developed Markets Index Fund	1,320	34	1,354	(222)	1,132
Vanguard Total Bond Market Index Fund-Admiral	6,777	-	6,777	419	7,196
Vanguard Total Stock Market Index Fund-Admiral	1,512	2	1,514	(265)	1,249
Vanguard PRIMECAP Core Fund	1,004	8	1,012	(58)	954
<b>Total Other</b>	<b>23,433</b>	<b>57</b>	<b>23,490</b>	<b>(289)</b>	<b>23,201</b>
<b>Total Investments</b>	<b>\$ 35,152</b>	<b>\$ 57</b>	<b>\$ 35,209</b>	<b>\$ (289)</b>	<b>\$ 34,920</b>

Other securities represent investments in short-term investment funds and fixed-income securities.

*Intra-governmental Investments in Treasury Securities-Investments for Earmarked Funds*

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Gift and Trust funds as evidence of its receipts. Treasury securities are an asset to the Gift and Trust funds and a liability to the U.S. Treasury. Since the Gift and Trust funds and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Gift and Trust funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Gift and Trust funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

*Note 4 – Accounts Receivable, Net*

Accounts receivable consisted of the following:

(in thousands)

	2010		2009	
	Intra-governmental	With the public	Intra-governmental	With the public
<b>Accounts receivable</b>	<b>\$ 14,189</b>	<b>\$ 325</b>	<b>\$ 14,789</b>	<b>\$ 328</b>

*Note 5 – Inventory, Net*

Inventories consist of merchandise held available for current sale at gift shops in the Presidential Libraries and the National Archives buildings.

(in thousands)

	2010	2009
Inventory held for sale	\$ 1,285	\$ 1,283
Allowance for damaged and obsolete goods	(256)	(259)
<b>Net realizable value</b>	<b>\$ 1,029</b>	<b>\$ 1,024</b>

*Note 6 - General Property, Plant and Equipment, Net*

The following components comprise Property, Plant and Equipment as of September 30, 2010 and 2009 (in thousands):

		2010	2009		
Asset category	Estimated useful life in years	Acquisition cost	Accumulated depreciation/amortization	Net book value	Net book value
Land	N/A	\$ 6,159	\$ -	\$ 6,159	\$ 6,159
Buildings and structures	30	390,506	(208,363)	182,143	193,735
Construction and shelving in progress	N/A	17,910	-	17,910	13,270
Equipment & Shelving	3 to 20	112,895	(66,273)	46,622	43,017
Leasehold Improvements	5	16,536	(4,668)	11,868	9,994
Assets under capital lease	20	5,285	(3,755)	1,530	1,794
Internal-use software	5	205,881	(105,855)	100,026	123,907
Software development in progress	N/A	78,147	-	78,147	28,528
<b>Total property, plant and equipment</b>		<b>\$ 833,319</b>	<b>\$ ( 388,914)</b>	<b>\$ 444,405</b>	<b>\$ 420,404</b>

Land and Buildings and structures presented on the Balance Sheet are deemed to be multi-use heritage assets. Assets deemed purely heritage assets are not included on the balance sheet. See Note 7 for further detail.

**Note 7 - Stewardship PP&E**

NARA is a custodian to multiple assets classified as heritage, including the National Archives Building in Washington, DC, all Presidential Libraries, as well as traditional and electronic holdings, and a variety of artifacts. These heritage assets are integral to the mission of the National Archives and Records Administration to safeguard, preserve, and ensure continuing access to the records of our Government.

Heritage assets, with the exception of those designated as multi-use, are not included on the Balance Sheet, as no financial value is nor can be placed on these assets. The costs of repairs and renovations to the heritage asset buildings are presented separately on the Statement of Net Cost as "Heritage asset renovation costs", and detailed in Note 15.

The major categories of heritage assets for NARA are buildings, land, and NARA's archival holdings and artifacts. NARA reports archival holdings by collection (e.g. Presidential, regional) and type of holdings (e.g. traditional, electronic), to more closely align with NARA's processes to maintain and preserve archival holdings.

	Buildings	Multi-Use Land	Traditional Holdings Collections	Electronic Holdings Collections	Artifacts Collections
National Archives Building	1	-	1	1	1
National Archives Building at College Park	1 (multi-use)	-	1	1	1
NARA regional archives	1 (multi-use)	2	13	-	-
Affiliated archives	-	-	7	1	-
Presidential Libraries	12	-	13	4	13
<b>TOTAL</b>	<b>15</b>	<b>2</b>	<b>35</b>	<b>7</b>	<b>15</b>

**Buildings**

Our most iconic asset, the National Archives Building, permanently displays the Declaration of Independence, the Constitution, and the Bill of Rights, collectively known as the Charters of Freedom. National Archives Building also houses textual and microfilm records relating to genealogy, American Indians, pre-World War II military and naval-maritime matters, the New Deal, the District of Columbia, the Federal courts, Congress, and the Vice Presidents Gore and Cheney.

To provide appropriate storage and preservation needs for the growing number of records, NARA was authorized to construct the National Archives in College Park, Maryland. National Archives at College Park collections include electronic records, cartographic and architectural holdings, special media (motion pictures, audio recordings, and videotapes), artifacts, the John F. Kennedy Assassination Records Collection, still pictures, and textual records from most civilian agencies and military records dating from World War II. Because the building also serves as the NARA administrative headquarters, the facility was deemed to be a multi-use heritage asset, and is included in general PP&E on the Balance Sheet (Note 6).

The NARA's regional archives facilities are leased, with the exception of Southeast Regional Facility (SER) in Atlanta, GA, which was constructed on land purchased by NARA. Along with National Archives at College Park, the building and the land are designated as multi-use heritage assets and are included in general PP&E on the Balance Sheet (Note 6).

Our regional archives contain collections of archival holdings of value for genealogical and historical research; such as Federal census information, naturalization records and passenger



lists, as well as closed business and personal bankruptcy case files, civil and criminal case files from Federal courts. The traditional military service records for the 20<sup>th</sup> century and personnel records of former federal civilian employees from mid-1800s through 1951 are managed at the National Personnel Records Center in St. Louis, Missouri.

The affiliated archives store the holdings of the National Archives. While we have agreements with 10 institutions, currently only 8 institutions store NARA's accessioned holdings.

The twelve Presidential Libraries are designated as heritage assets. Each consists of buildings, structures, and land under NARA's management used to store, preserve, and display the collections of traditional archival holdings and artifacts from the respective Presidential administration. Until the construction of the George W. Bush Library is completed at the Southern Methodist University, the collections of records and artifacts documenting the Presidency of George W. Bush are housed at a temporary leased facility in Lewisville, Texas.

#### **Multi-Use Land**

NARA owns two parcels of land, designated as multi-use, each serving as a site for current (SER in Atlanta, GA) or future (Alaska) multi-use regional archival facilities.

**Traditional Archival holdings** consist of the following record types:

- o Traditional Textual (paper) are records on paper whose intellectual content is primarily textual.
- o Traditional Non-textual (all media) category includes all records not classified as textual (paper), artifacts, or electronic records. It includes still pictures on paper and film; posters; architectural drawings, charts, maps and other cartographic records on paper; textual records on microfilm; as well as motion pictures, video, sound recordings, and other clearly non-textual records.

**Electronic Archival records** are records on electronic storage media, such as word processing documents, spreadsheets, emails (with attachments), databases, satellite imagery, and digital photographs, etc from agencies in the executive, legislative and judicial branches. The three Presidential electronic holding collections, from the Ronald Reagan, George Bush and William J. Clinton libraries, are maintained in College Park, Maryland. The Presidential unclassified electronic materials from the George W. Bush administration have been ingested to our Executive Office of the President (EOP) instance of the Electronic Records Archives system. Also ingested were the electronic records of Vice Presidents Gore and Cheney, which are under the direction of the Presidential Materials Staff at the National Archives building.

#### **Artifacts**

In addition to already discussed artifacts at the National Archives and National Archives at College Park, each of the Presidential library's museums is a repository to a collection of artifacts, preserved and exhibited to promote public understanding of the history of the period, the respective Presidential administration, and the career of the President. The artifact collections include gifts from foreign heads of state, luminaries and common citizens with artifacts ranging from high value items, including firearms, jewelry, and works of art, coins and currency to tee shirts, trinkets and curiosities.

There were no additions to any heritage asset collection, building or land during FY 2010, and no collection is ever retired or disposed. NARA's collections only grow with the accessioning of new records or transfer of Presidential materials. For the accession to take place, the Archivist determines, through the formal scheduling and appraisal process, whether records have sufficient administrative, legal, research or other value to warrant their continued preservation by the Government and for how long (44 USC 3303a). When in the public interest, the Archivist may accept Government records for historical preservation (44 USC 2107) and accept non-Government

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papers and other historical materials for deposit (44 USC 2111). The archivist also administers Presidential and Vice Presidential records in accordance with 44 U.S.C. Chapter 22. Methods of acquisition and disposal are according to the guidelines established through the legal authority granted to NARA. See the Performance Section 2.2 for more details on NARA's performance data on processing records and Section 2.7 for details on NARA's preservation performance.

Providing physically and environmentally appropriate storage conditions at NARA's facilities is the most essential and cost-effective way to preserve records. Information about the condition and deferred maintenance on NARA owned buildings and holdings is contained in the Deferred Maintenance section of the Required Supplementary Information.

*Note 8 – Liabilities not Covered by Budgetary Resources*

Liabilities not covered by budgetary resources are liabilities that are not funded by direct budgetary authority in the current fiscal year and result from the receipt of goods and services, or the occurrence of eligible events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation. Liabilities not covered by budgetary resources as of September 30, 2010 and 2009, consist of the following:

*(in thousands)*

	<u>2010</u>	<u>2009</u>
Intragovernmental		
Workers' compensation	\$ 766	\$ 828
Total intragovernmental	766	828
Debt held by the public	180,981	193,942
Accrued unfunded leave	10,828	10,157
Federal employee benefits -actuarial liability	11,241	11,097
Total liabilities not covered by budgetary resources	203,816	216,024
Total liabilities covered by budgetary resources	78,025	53,885
<b>Total liabilities</b>	<u>\$ 281,841</u>	<u>\$ 269,909</u>

*Note 9 - Debt Held by the Public*

Public Law 100-440 authorized NARA to "enter into a contract for construction and related services for a new National Archives facility. . . . The contract shall provide, by lease or installment payments payable out of annual appropriations over a period not to exceed thirty years."

In 1989, NARA entered into an installment sale and trust agreement with the trustee, United States Trust Company of New York. Under terms of this agreement, the trustee obtained financing for the construction of the National Archives at College Park through the sale of certificates representing proportionate shares of ownership. NARA is paying off the debt in semiannual installments.

Although the full amount financed of \$301,702 thousand was included (scored) for U.S. budget estimation purposes in fiscal year 1989, NARA requires a congressional appropriation to pay the redemption of debt (principal) and interest costs of \$28,971 thousand, annually. The 25-year semiannual payments of \$14,486 thousand began in 1994 and will be completed in 2019.

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
Beginning balance - Principal	\$ 192,578	\$ 204,420
Less : Debt repayment	12,870	11,842
Ending balance - Principal	179,708	192,578
Accrued interest payable	1,273	1,364
<b>Total Debt at September 30</b>	<b>\$ 180,981</b>	<b>\$ 193,942</b>

*Note 10 - Other Liabilities*

Other Liabilities as of September 30, 2010 and 2009 consist of the following:

	<b>2010</b>		
	<b>Non-Current</b>	<b>Current</b>	<b>Total</b>
Intragovernmental			
Workers' and unemployment compensation	\$ 1,242	\$ 1,049	\$ 2,291
Capital lease liability	400	110	510
Accrued payroll	-	2,808	2,808
Advances from others	-	113	113
Total Intragovernmental	1,642	4,080	5,722
Accrued funded payroll and leave	-	16,638	16,638
Unfunded leave	10,828	-	10,828
Other liabilities	-	7	7
Advances from others	-	38	38
<b>Total other liabilities</b>	<b>\$ 12,470</b>	<b>\$ 20,763</b>	<b>\$ 33,233</b>

For FY2009, the actuarial Federal employee benefits (Workers' Compensation) was included as part of the Other Liabilities and detailed in the table below. For FY2010, it is presented as a separate line, Federal employee benefits liability, on the Balance Sheet, and therefore is not included in this note.

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	2009		
	Non-Current	Current	Total
Intragovernmental			
Workers' and unemployment compensation	\$ 1,302	\$ 1,181	\$ 2,483
Capital lease liability	510	102	612
Accrued payroll	-	2,147	2,147
Advances from others	-	456	456
Total Intragovernmental	1,812	3,886	5,698
Accrued funded payroll and leave	-	13,971	13,971
Unfunded leave	10,157	-	10,157
Other liabilities	-	4	4
Advances from others	-	80	80
<b>Total other liabilities</b>	<b>\$ 11,969</b>	<b>\$ 17,941</b>	<b>\$ 29,910</b>

*Note 11 – Leases*

NARA leases office space, vehicles, copiers, and equipment under annual operating leases. These leases are cancelable or renewable on an annual basis at the option of NARA.

The NARA Revolving Fund conducts the major part of its operation from leased facilities, where most agreements are cancelable operating leases. These leases may be cancelled with four months notice, or, in the case of the Atlanta lease, may be terminated for convenience by NARA, under the provisions of the Federal Acquisitions Regulations.

Only one lease is classified as a capital lease, representing liability for shelving leased through GSA at the Philadelphia records facility. It expires in December 2014. The net capital lease liability is covered by budgetary resources, and shown in Intragovernmental Liabilities, Other (See Note 10).

The schedule below shows the future minimum payments under the capital lease with the present value of the future minimum lease payments (in thousands):

<b>Capital Leases - NARA as lessee</b>	<b>2010</b>	<b>2009</b>
Summary of assets under capital lease:		
Shelving	\$ 5,285	\$ 5,284
Accumulated amortization	(3,755)	(3,490)
<b>Description of Lease Arrangements</b>		
<b>Future payments due</b>		
<u>Fiscal year</u>		
2011	\$ 146	
2012	146	
2013	146	
2014	146	
2015	13	
After 2015	-	
Total future lease payments	597	
Less: imputed interest	87	
<b>Net capital lease liability</b>	<b>\$ 510</b>	

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NARA also has the following non-cancelable operating leases with GSA, which include no renewal options:

<b>Records facility</b>	<b>Lease Period</b>
Pittsfield, Massachusetts	January 5, 1994 through December 31, 2019
Dayton (Kingsridge), Ohio	September 1, 2004 through December 31, 2022
Lenexa, Kansas	February 1, 2003 through February 14, 2023
St. Louis, Missouri (permanent records)	February 1, 2010 through February 28, 2031
Pershing Rd, Kansas City, MO	January 1, 2009 through December 31, 2028
Ft. Worth-Montgomery, Texas	January 1, 2010 through August 31, 2015

Other non-cancelable operating leases with public corporations are detailed below. The Perris, CA and Atlanta, GA records facilities' leases have three ten year renewal options after the initial period.

<b>Records facility</b>	<b>Lease Period</b>
Perris, CA	December 1, 2004 through November 31, 2024
Atlanta, GA	October 1, 2004 through September 30, 2024
Ft. Worth, Texas	October 1, 2006 through October 31, 2026
The Annex I and II in Valmeyer, Illinois	October 1, 2008 through September 30, 2028

All GSA and public corporation leases include escalation clauses for operating costs tied to inflationary increases and for real estate taxes tied to tax increases. The minimum future lease payments detailed below reflect estimated escalations for such increases. These amounts will be adjusted to the actual costs incurred by the lessor.

In addition, NARA has a non-cancelable operating lease with Potomac Electric Power Company for a parcel of land used for a parking lot at our building in College Park. The lease is for 20 years, from May 2003 through April 2023, and contains a set schedule of payments due.

The schedule below shows the total future non-cancelable lease payments by asset class (in thousands):

<b>Operating Leases - NARA as lessee</b>		
<b>Future payments due:</b>	<b>Asset Category</b>	
<u>Fiscal year</u>	<u>Land</u>	<u>Buildings</u>
2011	\$ 132	\$ 22,744
2012	135	26,630
2013	139	26,909
2014	142	27,140
2015	146	27,111
After 2015	1,231	321,063
<b>Total future lease payments</b>	<b>\$ 1,925</b>	<b>\$ 451,597</b>

*Note 12 – Commitments and Contingencies*

NARA has incurred claims in the normal course of business. As of September 30, 2010, in the opinion of General Counsel, NARA has no material outstanding claims. The aggregate potential loss to NARA on all outstanding claims, with a reasonable possibility of an unfavorable outcome is estimated not to exceed \$120 thousand. Of these amounts, certain settlements or awards on tort claim over \$2,500 may be payable from the U.S. Treasury Judgment Fund in accordance with 31 USC 1304.

*Note 13 - Earmarked Funds*

Earmarked funds are financed by specifically identified revenues, which remain available over time. These specifically identified revenues are required by statute to be used for designated activities, or purposes, and must be accounted for separately from the Government's general revenues. NARA has two funds that are considered earmarked funds; National Archives Trust Fund (NATF) and National Archives Gift Fund (NAGF), which are administered by the National Archives Trust Fund Board.

Congress established the National Archives Trust Fund Board to receive and administer gifts and bequests and to receive monies from the sale of reproductions of historical documents and publications for activities approved by the Board and in the interest of NARA and the Presidential Libraries.

The members of the Board are the Archivist of the United States, who serves as chairman; the Secretary of the Treasury; and the chairman of the National Endowment for the Humanities. Membership on the board is not an office within the meaning of the statutes of the United States. The membership, functions, powers and duties of the National Archives Trust Fund Board shall be as prescribed in the National Archives Trust Fund Board Act of July 9, 1941, as amended (44 U.S. C. 2301-2308). These bylaws are adopted pursuant to the authority vested in the Board by 44 U.S. C. 2303 (3) to adopt bylaws, rules and regulations necessary for the administration of its function under this chapter.

NATF finances and administers the reproduction or publication of records and other historical materials. NAGF accepts, receives, holds and administers, in accordance with the terms of the donor, gifts, or bequests of money, securities, or other personal property for the benefit of NARA activities. The major areas of activity for these funds are Presidential Libraries, the Office of Regional Records Services, and the National Historical Publications and Records Commission.

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Financial Information for NATF and NAGF as of September 30, 2010 and 2009 consists of the following:

(in thousands)	2010		
	NATF	NAGF	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2010</b>			
<b>Assets</b>			
Fund balance with Treasury	\$ 570	\$ 201	\$ 771
Cash	53	-	53
Investments, net	19,175	17,633	36,808
Accounts receivable	355	-	355
Inventory	1,029	-	1,029
Property, plant and equipment	-	-	-
<b>Total assets</b>	<b>21,182</b>	<b>17,834</b>	<b>39,016</b>
<b>Liabilities</b>			
Accounts payable	542	261	803
Federal employee and veteran benefits	389	-	389
Other liabilities	863	-	863
<b>Total liabilities</b>	<b>1,794</b>	<b>261</b>	<b>2,055</b>
<b>Net position</b>			
Cumulative results of operations			
Restricted	-	14,033	14,033
Unrestricted	19,388	3,540	22,928
<b>Total net position</b>	<b>19,388</b>	<b>17,573</b>	<b>36,961</b>
<b>Total liabilities and net position</b>	<b>21,182</b>	<b>17,834</b>	<b>39,016</b>
<b>Statement of Net Cost for the Period Ended September 30, 2010</b>			
Gross Program Costs	16,677	1,873	18,550
Less Earned Revenues	17,265	-	17,265
<b>Net Costs of Operations</b>	<b>\$ (588)</b>	<b>\$ 1,873</b>	<b>\$ 1,285</b>
<b>Statement of Changes in Net Position For the Period Ended September 30, 2010</b>			
Net position, Beginning of fiscal year	18,068	16,950	35,018
Non-exchange revenue	3	667	670
Donations	-	1,512	1,512
Transfers-in/out without reimbursements	186	(794)	(608)
Other Budgetary Financing Sources	-	108	108
Imputed financing from costs absorbed by others	543	-	543
Other Financing Sources	-	1,003	1,003
<b>Total financing sources</b>	<b>732</b>	<b>2,496</b>	<b>3,228</b>
Net cost of operations	(588)	1,873	1,285
<b>Change in Net Position</b>	<b>1,320</b>	<b>623</b>	<b>1,943</b>
<b>Net Position, End of fiscal year</b>	<b>\$ 19,388</b>	<b>\$ 17,573</b>	<b>\$ 36,961</b>

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(in thousands)	2009		
	NATF	NAGF	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2009</b>			
<b>Assets</b>			
Fund balance with Treasury	\$ 576	\$ 102	\$ 678
Cash	49	-	49
Investments, net	17,955	16,965	34,920
Accounts receivable	134	-	134
Inventory	1,024	-	1,024
Property, plant and equipment	11	-	11
Other	1	-	1
<b>Total assets</b>	<b>19,750</b>	<b>17,067</b>	<b>36,817</b>
<b>Liabilities</b>			
Accounts payable	491	117	608
Other liabilities	1,191	-	1,191
<b>Total liabilities</b>	<b>1,682</b>	<b>117</b>	<b>1,799</b>
<b>Net position</b>			
Cumulative results of operations			
Restricted	-	13,440	13,440
Unrestricted	18,068	3,510	21,578
<b>Total net position</b>	<b>18,068</b>	<b>16,950</b>	<b>35,018</b>
<b>Total liabilities and net position</b>	<b>19,750</b>	<b>17,067</b>	<b>36,817</b>
<b>Statement of Net Cost for the Period Ended September 30, 2009</b>			
Gross Program Costs	16,775	769	17,544
Less Earned Revenues	17,798	-	17,798
<b>Net Costs of Operations</b>	<b>\$ (1,023)</b>	<b>\$ 769</b>	<b>\$ (254)</b>
<b>Statement of Changes in Net Position For the Period Ended September 30, 2009</b>			
Net position, Beginning of fiscal year	16,580	14,539	31,119
Non-exchange revenue	-	691	691
Donations	-	1,984	1,984
Transfers-in/out without reimbursements	(1)	(615)	(616)
Other Budgetary Financing Sources	-	31	31
Imputed financing from costs absorbed by others	466	-	466
Other Financing Sources	-	1,089	1,089
Total financing sources	465	3,180	3,645
Net cost of operations	(1,023)	769	(254)
Change in Net Position	1,488	2,411	3,899
<b>Net Position, End of fiscal year</b>	<b>\$ 18,068</b>	<b>\$ 16,950</b>	<b>\$ 35,018</b>

The elimination column was omitted because there was no elimination activity.



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*Note 14 – Intragovernmental Costs and Exchange Revenues by Program*

(in thousands)

	<u>2010</u>	<u>2009</u>
<b>Records and Archives Related Services</b>		
Intragovernmental gross costs	\$ 63,763	\$ 59,511
Public costs	322,765	297,910
Total Records and Archives-Related Service Costs	<u>386,529</u>	<u>357,421</u>
Intragovernmental earned revenue	361	975
Public earned revenue	-	2
Total Records and Archives-Related Service Earned Revenue	<u>361</u>	<u>977</u>
<b>Trust and Gift Funds</b>		
Intragovernmental gross costs	2,466	2,075
Public costs	12,872	12,357
Total Trust and Gift Funds Costs	<u>15,338</u>	<u>14,432</u>
Intragovernmental earned revenue	689	541
Public earned revenue	16,541	17,371
Total Trust and Gift Funds Earned Revenue	<u>17,230</u>	<u>17,912</u>
<b>Electronic Records Archives</b>		
Intragovernmental gross costs	7,554	6,698
Public costs	9,573	10,841
Total Electronics Records Archives Costs	<u>17,127</u>	<u>17,539</u>
<b>National Historical Publications and Records Commission Grants</b>		
Intragovernmental gross costs	-	-
Public costs	8,773	6,434
Total National Historical Publications and Records Commission Grants Costs	<u>8,773</u>	<u>6,434</u>
<b>Archives Facilities and Presidential Libraries Repairs and Restoration</b>		
Intragovernmental gross costs	-	124
Public costs	(287)	1,823
Heritage asset renovation costs (Note 15)	29,855	21,940
Total Archives Facilities and Presidential Libraries Repairs and Restoration Costs	<u>29,568</u>	<u>23,887</u>
<b>Revolving Fund Records Center Storage and Services</b>		
Intragovernmental gross costs	75,099	71,727
Public costs	97,556	91,923
Total Revolving Fund Records Center Storage and Service Costs	<u>172,655</u>	<u>163,650</u>
Intragovernmental earned revenue	161,197	150,031
Public earned revenue	1,086	1,541
Total Revolving Fund Records Center Storage and Services Earned Revenue	<u>\$ 162,283</u>	<u>\$ 151,572</u>

Gross costs are classified on the basis of the sources of goods and services. Intragovernmental gross costs are expenses related to purchases from a Federal entity. Intragovernmental earned revenue represents exchange transactions between NARA and other Federal entities.

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Public costs are expenses related to purchases from a non-Federal entity, and the exchange revenue is classified as “public earned revenue” where the buyer of the goods or services is a non-Federal entity.

*Note 15 – Cost of Stewardship PP&E*

Stewardship assets consist of heritage assets as defined in Note 7. The Consolidated Statement of Net Cost includes the following costs to renovate heritage assets buildings and structures, as of September 30, 2010 and 2009 (in thousands):

<i>Asset</i>	<u>2010</u>	<u>2009</u>
National Archives Building	\$ 2,288	\$ 1,672
<u>Libraries:</u>		
Roosevelt	3,672	1,421
Hoover	28	33
Truman	737	627
Eisenhower	2,224	694
Kennedy	9,574	3,019
Johnson	4,102	4,442
Nixon	3,231	4,723
Ford	85	224
Carter	485	4,572
Reagan	3,317	358
Bush	112	6
Clinton	-	149
Total	<u>\$ 29,855</u>	<u>\$ 21,940</u>

For additional information about NARA’s Stewardship Assets see Note 7 and Required Supplementary Information.

*Note 16 – Stewardship PP&E Acquired Through Transfer, Donation or Devise*

Other than permanent records accessioned from other Federal Agencies, NARA may gain ownership of heritage assets received through gifts of money, security or other property. The National Archives Gift fund receives and accepts, holds and administers in accordance with the terms of the donor, gifts or bequests for the benefit of the National Archives Gift Fund activities or Presidential Libraries. Additional information about heritage assets is presented in Note 7, and detailed by the type and quantity of heritage assets collections.

*Note 17 - Apportionment Categories of Obligations Incurred*

OMB typically uses one of two categories to distribute budgetary resources subject to apportionment in a fund. Apportionments that are distributed by fiscal quarters are classified as category A. Category B apportionments usually distribute budgetary resources by activities, project, objects or a combination of these categories. NARA’s Trust fund remains exempt from apportionment.

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The amounts of direct and reimbursable obligations incurred (in thousands).

	Category A		Category B		Exempt		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Direct	\$409,864	\$372,927	\$59,934	\$ 60,905	\$ -	\$ -	\$469,798	\$433,832
Reimbursable	2,172	3,289	177,194	165,155	18,355	16,083	197,721	184,527
<b>Total</b>	<b>\$412,036</b>	<b>\$376,216</b>	<b>\$237,128</b>	<b>\$ 226,060</b>	<b>\$18,355</b>	<b>\$16,083</b>	<b>\$ 667,519</b>	<b>\$618,359</b>

*Note 18 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government*

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* calls for explanations of material differences between budgetary resources available, status of those resources and outlays as presented in the Statement of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government* (President’s Budget). However, the President’s Budget that will include FY 2010 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2011. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, NARA prior year actual SBR balances and the related President’s Budget are shown in a table below for each major budget account in which a difference exists. The differences are primarily due to reporting requirement differences 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.

(in millions)	2009			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 716	\$ 618	\$ 1	\$ 401
Difference-Expired appropriations	(12)	(2)	-	-
Difference-Rounding	(3)	-	-	2
<b>Budget of the U.S. Government</b>	<b>\$ 701</b>	<b>\$ 616</b>	<b>\$ 1</b>	<b>\$ 403</b>

*Note 19 – Undelivered Orders at the End of the Period*

The amount of budgetary resources obligated for undelivered orders at September 30, 2010 and 2009 is \$141,344 thousand and \$140,993 thousand, respectively.

*Note 20 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)*

Reconciling budgetary resources obligated during the period to the Net Cost of Operations explains the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (proprietary) accounting. .

The reconciliation starts with the net obligations incurred during the period. Net obligations incurred are amounts of new orders placed, contracts awarded, services received and other similar transactions that will require payments during the same or a future period. To arrive at the total

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resources used to finance operations, non-budgetary resources must be added to net obligations incurred. Non-budgetary resources include financing imputed for cost subsidies and unrealized gains and losses from non-federal securities being held by the Gift fund. Resources that do not fund net costs of operations are primarily the change in amount of goods, services and benefits ordered but not yet received, amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet. These are deducted from the total resources. Costs that do not require resources in the current period consist of depreciation and asset revaluations. Financing sources yet to be provided are the financing amounts needed in a future period to cover costs incurred in the current period, such as unfunded annual leave and unfunded workers compensation. FY2009 presentation of the numbers below has been modified to be consistent with FY10 refinement of the process for moving FECA related liabilities to current year, thus \$4,501 has been reclassified from "Financing sources yet to be provided" to "Resources that do not fund net cost of operations" line. The costs that do not require resources in the current period and the financing sources yet to be provided are added to the total resources used to finance operations, to arrive at the net cost of operations for the current period.

(in thousands)	<b>2010</b>	<b>2009</b>
Net obligations incurred	\$ 440,649	\$ 412,218
Nonbudgetary Resources	20,480	16,017
Total resources used to finance activities	461,129	428,235
Resources that do not fund net cost of operations	(67,468)	(65,347)
Cost that do not require resources in the current period	55,500	48,815
Financing sources yet to be provided	955	1,199
Net cost of operations	\$ 450,116	\$ 412,902

## *Required Supplementary Information*

### *Deferred Maintenance*

The National Archives owns and manages assets including the National Archives Building, the National Archives at College Park, MD, the Southeast Regional Archives building in Atlanta, GA, and the Presidential Libraries. The rest of NARA facilities are leased from GSA or the public. All of these support NARA's mission to safeguard and preserve our most significant heritage assets, the national record holdings in our custody.

To ensure the preservation of the archival holdings NARA applies a multi-faceted strategy, which includes storage in appropriate environment, implementation of handling and other preservation policies, and preservation actions, such as holdings maintenance, custom housing, reformatting and conservation treatment.

Through NARA-wide risk and condition assessment processes, which are a function of the day to day operations, such as accessioning of records into the NARA's possession, NARA obtains condition information for its collection type heritage assets.

Extensive preservation actions are required on those records identified as "at-risk" to minimize further deterioration and to remediate damage that has occurred due to age or improper handling and storage conditions prior to arrival at NARA. NARA has identified the backlog of records requiring preservation actions as one of its top challenges, and plans actions annually to address it. The progress on this ongoing challenge is tracked and reported as one of our critical performance measures (section 2.7 in the Performance section of this PAR.)

Because the space where the records are preserved is a critical factor to prevent deterioration of the records, NARA has implemented federal records and archival storage standards to reduce damage to holdings prior to their accession by NARA as well as when in the NARA's possession. The costs to address deficiencies related to compliance of NARA owned facilities with these storage standards are reflected in the estimate, below.

NARA uses the condition assessment method to determine the condition of its fixed assets, including stewardship PP&E facilities. The condition assessment surveys (CAS) at NARA are conducted by a professional architectural firm, who prepare Building Condition Reports (BCR), for all NARA owned facilities on a five-year rotating cycle. Facility managers continue to perform condition assessments annually to identify critical needs between BCRs. Maintenance required to bring fixed assets to acceptable condition, which is not scheduled or performed when needed, is included in the deferred maintenance estimate below.

At the end of Fiscal Year 2010, needed maintenance projects for fifteen locations, including twelve Presidential Libraries, have been identified from current BCR reports, and are included in the deferred maintenance estimate.

<i>Category</i>	<i>Method</i>	<i>Acceptable Asset Condition</i>	<i>Estimated Deferred Maintenance</i>
Heritage assets - Buildings	CAS	Good	\$40 to 41 million
Multi-use assets - Buildings	CAS	Good	\$8 to 9 million

NARA categorizes facilities and equipment according to condition using terms such as those shown below:

- o *Good.* Facilities/equipment condition meets established maintenance standards, operating efficiently and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no critical deferred maintenance on building and equipment in good condition.

**National Archives and Records Administration**  
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- *Fair.* Facilities/equipment condition meets minimum standards, but requires additional maintenance or repairs to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy.
- *Poor/Unsatisfactory.* Facilities/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function.

Due to the scope, nature and variety of the assets and the nature of the deferred maintenance, exact estimates are very difficult to determine. Current estimates include correcting deficiencies that relate to the safety or the protection of valuable materials, modifications to provide safety and public accessibility to the facility, and electrical upgrades to prevent loss of critical data. The estimates generally exclude vehicles and other categories of operating equipment.

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*Required Supplementary Information*

*Schedule of Budgetary Resources by Major Budget Accounts*

(in thousands)

Fiscal Year 2010	Records and Archives- Related Services	Gift Fund	Trust Fund	Electronic Records Archives	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
<b>Budgetary Resources</b>								
Unobligated Balance brought forward, October 1:	\$ 11,332	\$2,837	\$ 7,220	\$ 2,416	\$ 1,870	\$ 54,526	\$ 17,625	\$ 97,826
Recoveries of prior year unpaid obligations	4,724	2	483	2,234	189	784	1,432	9,848
Budgetary appropriations received	343,870	3,150	-	85,500	13,000	27,500	-	473,020
Spending authority from offsetting collections	15,641	-	15,779	-	-	-	182,449	213,869
Nonexpenditure transfers, net, anticipated and actual	-	-	-	-	-	-	-	-
Permanently not available	15,752	-	-	1,081	-	-	-	16,833
<b>Total Budgetary Resources</b>	<b>359,815</b>	<b>5,989</b>	<b>23,482</b>	<b>89,069</b>	<b>15,059</b>	<b>82,810</b>	<b>201,506</b>	<b>777,730</b>
<b>Status of Budgetary Resources</b>								
Obligations Incurred	346,637	3,379	18,353	67,164	9,711	45,081	177,194	667,519
Unobligated Balance-available	1,367	2,610	5,129	20,252	5,348	37,729	24,312	96,747
Unobligated balance not available	11,811	-	-	1,653	-	-	-	13,464
<b>Total Status of Budgetary Resources</b>	<b>359,815</b>	<b>5,989</b>	<b>23,482</b>	<b>89,069</b>	<b>15,059</b>	<b>82,810</b>	<b>201,506</b>	<b>777,730</b>
<b>Change in Obligated Balance</b>								
Obligated balance, net, beginning of period	91,680	547	1,841	36,130	12,296	20,296	8,009	170,799
Obligations incurred net	346,637	3,379	18,353	67,164	9,711	45,081	177,194	667,519
Less: Gross outlays	(341,727)	(3,299)	(17,204)	(61,129)	(7,761)	(30,371)	(171,363)	(632,854)
Less: Recoveries of prior year unpaid obligations, actual	(4,724)	(2)	(483)	(2,234)	(189)	(784)	(1,432)	(9,848)
Change in uncollected customer payments from Federal sources	7	-	(154)	-	-	-	(11,617)	(11,764)
<b>Obligated balance, net, end of period</b>	<b>91,873</b>	<b>625</b>	<b>2,353</b>	<b>39,931</b>	<b>14,057</b>	<b>34,222</b>	<b>791</b>	<b>183,852</b>
<b>Net Outlays</b>								
Gross outlays	341,727	3,299	17,204	61,129	7,761	30,371	171,363	632,854
Less: Offsetting collections	(15,648)	-	(15,626)	-	-	-	(170,832)	(202,106)
Less: Distributed Offsetting receipts	(6)	(3,146)	-	-	-	-	-	(3,152)
<b>Net Outlays</b>	<b>\$326,073</b>	<b>\$ 153</b>	<b>\$ 1,578</b>	<b>\$ 61,129</b>	<b>\$ 7,761</b>	<b>\$ 30,371</b>	<b>\$ 531</b>	<b>\$ 427,596</b>

*Required Supplementary Information*

*Schedule of Budgetary Resources by Major Budget Accounts*

(in thousands)

Fiscal Year 2009	Records and Archives-Related Services	Gift Fund	Trust Fund	Electronic Records Archives	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs &	Records Center and Storage Services	Total
<b>Budgetary Resources</b>								
Unobligated Balance brought forward, October 1:	\$ 11,965	\$1,987	\$ 7,068	\$ 2,993	\$878	\$ 24,299	\$15,795	\$ 64,985
Recoveries of prior year unpaid obligations	4,523	179	483	470	403	598	2,066	8,722
Budgetary appropriations received	330,308	3,476	-	67,008	11,250	50,711	-	462,753
Spending authority from offsetting collections	15,405	-	15,751	-	-	-	164,920	196,076
Nonexpenditure transfers, net, anticipated and actual	2,000	-	-	-	(2,000)	-	-	-
Permanently not available	15,910	-	-	442	-	-	-	16,352
<b>Total Budgetary Resources</b>	<b>348,291</b>	<b>5,642</b>	<b>23,302</b>	<b>70,029</b>	<b>10,531</b>	<b>75,608</b>	<b>182,781</b>	<b>716,184</b>
<b>Status of Budgetary Resources</b>								
Obligations Incurred	337,219	2,805	16,082	67,354	8,661	21,082	165,156	618,359
Unobligated Balance-available	1,139	2,837	7,220	345	1,870	54,526	17,625	85,562
Unobligated balance not available	9,933	-	-	2,330	-	-	-	12,263
<b>Total Status of Budgetary Resources</b>	<b>348,291</b>	<b>5,642</b>	<b>23,302</b>	<b>70,029</b>	<b>10,531</b>	<b>75,608</b>	<b>182,781</b>	<b>716,184</b>
<b>Change in Obligated Balance</b>								
Obligated balance, net, beginning of period	87,358	98	2,541	20,932	10,555	20,531	17,086	159,101
Obligations incurred net	337,220	2,805	16,082	67,354	8,661	21,082	165,155	618,359
Less: Gross outlays	(328,382)	(2,177)	(16,379)	(51,686)	(6,517)	(20,719)	(162,957)	(588,817)
Less: Recoveries of prior year unpaid obligations, actual	(4,523)	(179)	(483)	(470)	(403)	(598)	(2,066)	(8,722)
Change in uncollected customer payments from Federal sources	7	-	80	-	-	-	(9,209)	(9,122)
<b>Obligated balance, net, end of period</b>	<b>91,680</b>	<b>547</b>	<b>1,841</b>	<b>36,130</b>	<b>12,296</b>	<b>20,296</b>	<b>8,009</b>	<b>170,799</b>
<b>Net Outlays</b>								
Gross outlays	328,382	2,177	16,379	51,686	6,517	20,719	162,957	588,817
Less: Offsetting collections	(15,412)	-	(15,831)	-	-	-	(155,711)	(186,954)
Less: Distributed Offsetting receipts	(9)	(1,334)	-	-	-	-	-	(1,343)
<b>Net Outlays</b>	<b>\$ 312,961</b>	<b>\$ 843</b>	<b>\$ 548</b>	<b>\$ 51,686</b>	<b>\$ 6,517</b>	<b>\$ 20,719</b>	<b>\$ 7,246</b>	<b>\$ 400,520</b>