

## Financial Discussion and Analysis

In these challenging budgetary times, the federal government has turned to Chief Financial Officers to offer solutions that will enable agencies to serve the American people more effectively. NSF has responded by building on business services that work smarter, better, and more efficiently. One way we have done this through additional risk management analysis of our operations. Effective risk management helps us to better set priorities while avoiding unnecessary costs. For example, as part of its internal control program, NSF performs risk-based internal control assessments that cover a range of business processes. These assessments are integrated with system reviews to gain efficiencies. NSF has also developed new tools to facilitate award management and the monitoring of expenditure rates. The agency's move towards modernizing its financial systems and contracting and grant management processes has allowed us to make strides towards improving the availability and transparency of financial information with the result of operating more efficiently. During FY 2011, NSF moved forward with the planning and acquisition of a new financial management system (see discussion on "Financial System Strategy" on page 1-25). In addition, our current award oversight activities are based upon risk assessments of funding. The risk assessment process is consistently reviewed based on results and experience.

As responsible stewards of taxpayer dollars, NSF prepares annual financial statements in conformity with generally accepted accounting principles (GAAP) for U.S. federal government entities. The financial statements present NSF's detailed financial information relative to its mission and the stewardship of those resources entrusted to the agency. It also provides readers with an understanding of the resources that NSF has available for use, the cost of our programs, and the status of resources at the end of the fiscal year. NSF subjects its financial statements to an independent audit to ensure that they are free from material misstatement and can be used to assess NSF's financial status and related financial activity for the years ending September 30, 2011 and 2010. For FY 2011, NSF received its 14th consecutive unqualified audit opinion. The audit report noted no material weaknesses. In addition, the report no longer includes the prior year significant deficiency related to the monitoring of cost reimbursement contracts. This is largely the result of the agency's efforts to obtain incurred cost audits for high-risk contracts to ensure the reasonableness and accuracy of costs paid on contracts. However, the audit report includes a new significant deficiency related to cooperative agreements with budgeted contingency amounts. Although management does not concur with the significant deficiency, NSF will continue to work towards reaching agreement and resolving the concerns reported. A detailed discussion of the independent audit is included in the audit report which can be found on page II-3.

### Understanding the Financial Statements

NSF's FY 2011 financial statements and notes are presented in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*. NSF's current year financial statements and notes are presented in a comparative format. The Stewardship Investment schedule presents information over the last five years. Figure 9 summarizes the changes in NSF's financial position in FY 2011.

Figure 9. Changes in NSF's Financial Position in FY 2011 (dollars in thousands)

Net Financial Condition	FY 2011	FY 2010	Increase/ (Decrease)	% Change
<b>Assets</b>	\$12,584,734	\$12,804,423	(\$219,689)	-1.7%
<b>Liabilities</b>	\$581,123	\$596,010	(14,887)	-2.5%
<b>Net Position</b>	\$12,003,611	\$12,208,413	(\$204,802)	-1.7%
<b>Net Cost</b>	\$7,139,994	\$6,895,106	\$244,888	3.6%

### Balance Sheet

The Balance Sheet presents the total amounts available for use by NSF (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). NSF's total assets are largely composed of *Fund Balance with Treasury*. A significant balance also exists in the *General Property, Plant and Equipment (PP&E)* account.

In FY 2011, *Total Assets* (Figure 10) decreased 1.7 percent from FY 2010 assets. The bulk of the change occurred in the *Fund Balance with Treasury* account, which decreased by \$283.6 million in FY 2011. *Fund Balance with Treasury* is funding available from which NSF is authorized to make expenditures and pay amounts due through the disbursement authority of the Department of Treasury. It is increased through appropriations and collections and decreased by expenditures and rescissions. The FY 2011 decrease is attributed to the spending of ARRA funds by grant recipients.

NSF's *Total Liabilities* (Figure 11) decreased by 2.5 percent in FY 2011. The majority of this change is related to NSF's strides to encourage its partnering agencies to work on a reimbursable basis, reducing the related *Advances from Others* liability.

### Statement of Net Cost

This statement presents the annual cost of operating NSF programs. The net cost of each specific NSF program operation equals the program's gross cost less any offsetting revenue. Intragovernmental earned revenues are recognized when related program or administrative expenses are incurred. *Earned revenue* is deducted from the full cost of the programs to arrive at the *Net Cost of Operation*.

Approximately 95 percent of all current year NSF Net Costs of Operations incurred were directly related to the support of the Research and Related Activities (R&RA), Education and Human Resources (EHR), and Major Research Equipment and Facilities Construction (MREFC) programs. Additional costs were incurred for indirect general operation activities (e.g., salaries, training, and activities related to the advancement of NSF information systems technology) and activities of the NSB and the OIG. These costs were allocated to the R&RA,

Figure 10  
FY 2011 ASSETS

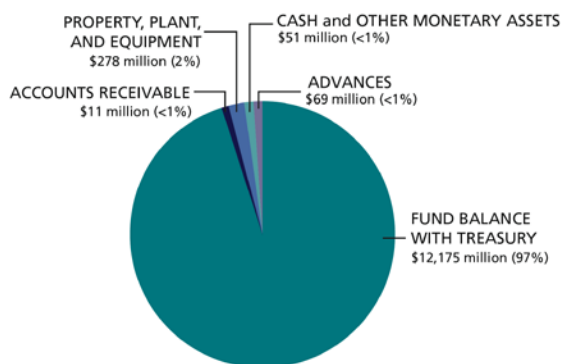


Figure 11  
FY 2011 LIABILITIES

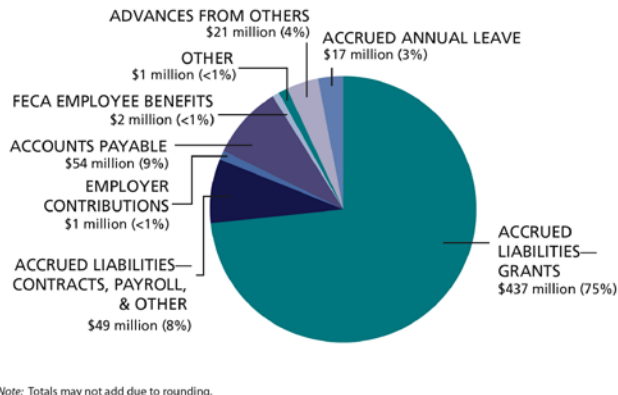


Figure 12  
FY 2011 NET COST

