

Financials



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Photo, previous page: A three percent scale model of a blended wing body aircraft design is tested in NASA Langley's 12-Foot Low-Speed Tunnel. During the testing, engineers sought to clarify results from a previous test of the X-48C prototype conducted in the Langley Full Scale Tunnel. (Credit: NASA/S. Smith)

Message from the Chief Financial Officer

November 15, 2011

NASA takes seriously its responsibility for stewardship of the resources entrusted to it and for reporting on the Agency's budget and performance outcomes. This Financials section is the culmination of our efforts to present the Agency's financial status and provide transparency and accountability to the American people. It provides a comprehensive view of the financial activities undertaken to advance NASA's exploration, space operations, science, aeronautics research, and education missions. It also represents a snapshot of the financial picture resulting from the work performed on a daily basis by NASA personnel as we operate across ten centers and multiple locations in the United States and around the world.

I am very pleased to report that NASA continues to make significant progress in financial management. The results of the Agency's fiscal year 2011 financial audit are clear evidence of that progress. The Agency received an unqualified "clean" opinion on its financial statements for the first time in nine years. Additionally, NASA reported that it is substantially compliant with the Federal Financial Management Improvement Act (FFMIA) for the second consecutive year.

While the independent auditors report no material weaknesses through their audit, two significant deficiencies, one related to liability estimates and another related to information technology controls, will continue to require NASA's attention and diligence. The Agency is committed to resolving these remaining deficiencies.

We are pleased with our progress and achievements, and we remain committed to ensuring a sound financial management environment. These significant accomplishments are the result of the coordinated, focused efforts of dedicated, hard-working professionals across NASA. I appreciate the continued support of the entire Agency, with special thanks to the Office of Inspector General, as we continue to work together in our quest for excellence in financial management.



A handwritten signature in blue ink, which appears to read "E. Robinson".

Dr. Elizabeth Robinson
Chief Financial Officer

Introduction to the Principal Financial Statements

Introduction and Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the National Aeronautics and Space Administration (NASA), pursuant to the requirements of 31 U.S.C. 3515 (b). The statements have been prepared from the records of NASA in accordance with Generally Accepted Accounting Principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB) in Circular No. A-136, *Financial Reporting Requirements*. The statements are in addition to financial reports prepared by NASA in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. NASA has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2010 is included where applicable. The financial statements, which describe the results of NASA's operations and financial position, are the responsibility of NASA's management. NASA's Principal Financial Statements include the following:

The **Consolidated Balance Sheet** provides information on assets, liabilities, and net position as of the end of the reporting period, similar to balance sheets reported in the private sector. Assets must equal the sum of liabilities and net position. The difference between assets and liabilities is a measure of NASA's net position.

The **Consolidated Statement of Net Cost** reports the components of the net costs of NASA's operations for the reporting period. The net cost of operations consists of the gross cost incurred by NASA less any exchange (i.e., earned) revenue from activities.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the reporting period, and the ending net position.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available and their status for the reporting period. Information in this statement is reported on the budgetary basis of accounting.

Required Supplementary Stewardship Information provides information on NASA's Research and Development and Other Initiatives costs.

Required Supplementary Information contains a Combining Statement of Budgetary Resources and information on Deferred Maintenance.

Financial Statements, Notes, and Supplemental Information

National Aeronautics and Space Administration Consolidated Balance Sheet As of September 30, 2011 and 2010 (In Millions of Dollars)

| | Audited 2011 | Audited 2010 |
|--|------------------|------------------|
| Assets (Note 2): | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 9,395 | \$ 8,601 |
| Investments (Note 4) | 17 | 18 |
| Accounts Receivable (Note 5) | 89 | 69 |
| Total Intragovernmental | 9,501 | 8,688 |
| Accounts Receivable, Net (Note 5) | 1 | 2 |
| Property, Plant and Equipment, Net (Note 6) | 9,840 | 9,635 |
| Other Assets (Note 8) | — | 3 |
| Total Assets | \$ 19,342 | \$ 18,328 |
| Stewardship PP&E (Note 7) | | |
| Liabilities (Note 9): | | |
| Intragovernmental: | | |
| Accounts Payable | \$ 99 | \$ 136 |
| Other Liabilities (Note 11) | 111 | 108 |
| Total Intragovernmental | 210 | 244 |
| Accounts Payable | 1,431 | 1,326 |
| Federal Employee and Veteran Benefits | 51 | 55 |
| Environmental and Disposal Liabilities (Note 10) | 1,445 | 1,041 |
| Other Liabilities (Note 11) | 1,512 | 1,647 |
| Total Liabilities | 4,649 | 4,313 |
| Commitments and Contingencies (Note 12) | | |
| Net Position: | | |
| Unexpended Appropriations | 6,528 | 5,706 |
| Cumulative Results of Operations | 8,165 | 8,309 |
| Total Net Position | 14,693 | 14,015 |
| Total Liabilities and Net Position | \$ 19,342 | \$ 18,328 |

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Consolidated Statement of Net Cost
For the Fiscal Years Ended September 30, 2011 and 2010
(In Millions of Dollars)

| | Audited 2011 | Audited 2010 |
|--|-------------------------|-------------------------|
| Cost by Research and Development and Other Initiatives (Note 13): | | |
| Aeronautics Research | | |
| Gross Costs | \$ 808 | \$ 816 |
| Less: Earned Revenue | 119 | 119 |
| Net Costs | <u>689</u> | <u>697</u> |
| Exploration Systems | | |
| Gross Costs | \$ 4,791 | \$ 5,360 |
| Less: Earned Revenue | 68 | 62 |
| Net Costs | <u>4,723</u> | <u>5,298</u> |
| Science | | |
| Gross Costs | \$ 7,030 | \$ 6,697 |
| Less: Earned Revenue | 1,019 | 649 |
| Net Costs | <u>6,011</u> | <u>6,048</u> |
| Space Operations | | |
| Gross Costs | \$ 7,253 | \$ 9,694 |
| Less: Earned Revenue | 58 | 429 |
| Net Costs | <u>7,195</u> | <u>9,265</u> |
| Net Cost of Operations | | |
| Total Gross Costs | \$ 19,882 | \$ 22,567 |
| Less: Total Earned Revenue | <u>1,264</u> | <u>1,259</u> |
| Net Cost | <u>18,618</u> | <u>21,308</u> |

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Consolidated Statement of Changes in Net Position
For the Fiscal Years Ended September 30, 2011 and 2010
(In Millions of Dollars)

| | Audited 2011 | Audited 2010 |
|--|-------------------------|-------------------------|
| Cumulative Results of Operations: | | |
| Beginning Balances | \$ 8,309 | \$ 13,408 |
| Adjustments: | | |
| Changes in Accounting Principle | — | (3,019) |
| Beginning Balances, As Adjusted | <u>8,309</u> | <u>10,389</u> |
| Budgetary Financing Sources: | | |
| Appropriations Used | 17,590 | 19,053 |
| Nonexchange Revenue | 13 | 9 |
| Other Financing Sources: | | |
| Donations and Forfeitures of Property | 15 | 12 |
| Transfers In/Out Without Reimbursement | 676 | (2) |
| Imputed Financing | 193 | 164 |
| Other | (13) | (8) |
| Total Financing Sources | <u>18,474</u> | <u>19,228</u> |
| Net Cost of Operations | <u>(18,618)</u> | <u>(21,308)</u> |
| Net Change | <u>(144)</u> | <u>(2,080)</u> |
| Cumulative Results of Operations | <u>8,165</u> | <u>8,309</u> |
| Unexpended Appropriations: | | |
| Beginning Balance | 5,706 | 6,128 |
| Budgetary Financing Sources: | | |
| Appropriations Received | 18,485 | 18,724 |
| Other Adjustments | (73) | (93) |
| Appropriations Used | <u>(17,590)</u> | <u>(19,053)</u> |
| Total Budgetary Financing Sources | <u>822</u> | <u>(422)</u> |
| Unexpended Appropriations | <u>6,528</u> | <u>5,706</u> |
| Net Position | <u>\$ 14,693</u> | <u>\$ 14,015</u> |

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
 Combined Statement of Budgetary Resources
 For the Fiscal Years Ended September 30, 2011 and 2010
 (In Millions of Dollars)

| | Audited 2011 | Audited 2010 |
|--|------------------|------------------|
| Budgetary Resources: | | |
| Unobligated Balance, Brought Forward, October 1: | \$ 615 | \$ 1,320 |
| Recoveries of Prior Year Unpaid Obligations | 257 | 330 |
| Budgetary Authority | | |
| Appropriation | 18,486 | 18,725 |
| Spending Authority from Offsetting Collections: | | |
| Earned | | |
| Collected | 1,964 | 1,475 |
| Change in Receivables from Federal Sources | 18 | (147) |
| Change in Unfilled Customer Orders | | |
| Advance Received | 38 | (87) |
| Without Advance from Federal Sources | 11 | (14) |
| Subtotal | <u>20,517</u> | <u>19,952</u> |
| Permanently Not Available | | |
| Cancellations of Expired and No-Year Accounts | (36) | (93) |
| Enacted Reductions | (37) | — |
| Total Budgetary Resources | <u>\$ 21,316</u> | <u>\$ 21,509</u> |
| Status of Budgetary Resources: | | |
| Obligations Incurred (Note 14): | | |
| Direct | \$ 18,602 | \$ 19,413 |
| Reimbursable | 2,037 | 1,481 |
| Subtotal | <u>20,639</u> | <u>20,894</u> |
| Unobligated Balance: | | |
| Apportioned | 541 | 459 |
| Unobligated Balance Not Available | 136 | 156 |
| Total Status of Budgetary Resources | <u>\$ 21,316</u> | <u>\$ 21,509</u> |

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Combined Statement of Budgetary Resources
For the Fiscal Years Ended September 30, 2011 and 2010
(In Millions of Dollars)

| | Audited 2011 | Audited 2010 |
|---|-------------------------|-------------------------|
| Change in Obligated Balance: | | |
| Obligated Balances, Net | | |
| Unpaid Obligations Brought Forward, October 1 | \$ 8,779 | \$ 8,516 |
| Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 | 822 | 983 |
| Total Unpaid Obligated Balances, Net | 7,957 | 7,533 |
| | | |
| Obligations Incurred (Note 14) | 20,639 | 20,894 |
| Less: Gross Outlays | 19,635 | 20,301 |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual | 257 | 330 |
| Change in Uncollected Customer Payments from Federal Sources | (29) | 161 |
| | \$ 8,675 | \$ 7,957 |
| | | |
| Obligated Balance, Net, End of Period | | |
| Unpaid Obligations | \$ 9,526 | \$ 8,779 |
| Less: Uncollected Customer Payments from Federal Sources | 851 | 822 |
| Total, Unpaid Obligated Balance, Net, End of Period | \$ 8,675 | \$ 7,957 |
| | | |
| Net Outlays: | | |
| Net Outlays: | | |
| Gross Outlays | \$ 19,635 | \$ 20,301 |
| Less: Offsetting Collections | 2,002 | 1,388 |
| Less: Distributed Offsetting Receipts | 16 | 8 |
| Net Outlays | \$ 17,617 | \$ 18,905 |

The accompanying notes are an integral part of this statement.

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Aeronautics and Space Administration (NASA) is an independent Agency established by Congress on October 1, 1958 by the National Aeronautics and Space Act of 1958. NASA was incorporated from the Agency's predecessor organization, the National Advisory Committee for Aeronautics, which provided technical advice to the United States (U.S.) aviation industry and performed aeronautics research. Today, NASA serves as the fulcrum for initiatives by the United States in civil space and aviation.

NASA is organized into four Research and Development and Other Initiatives (R&D/Other) which focus on the following objectives:

- Aeronautics Research: conducting research which will significantly enhance aircraft performance, environmental compatibility, and safety, and will enhance the capacity, flexibility, and safety of the future air transportation system;
- Exploration Systems: creating new capabilities, supporting technologies and foundational research for affordable, sustainable human and robotic exploration;
- Science: exploring the Earth, Moon, Mars, and beyond; charting the best route of discovery, and reaping the benefits of Earth and space exploration for society; and
- Space Operations: providing critical enabling technologies for much of the rest of NASA through the Space Shuttle, the International Space Station, and flight support.

NASA's structure includes a Strategic Management Council, a Mission Support Council, and a Program Management Council to integrate NASA's strategic, tactical and operational decisions, and a number of other committees supporting NASA's focus and direction. The organizational structure is designed to position NASA to implement the National Space Policy.

The nine NASA Centers, NASA Headquarters, and the Jet Propulsion Laboratory carry out the activities of NASA. The Jet Propulsion Laboratory is a federally funded Research and Development center owned by NASA but managed by an independent contractor.

The accompanying financial statements of NASA include the accounts of all funds which have been established and maintained to account for the resources under the control of NASA management.

Basis of Accounting and Presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America and standards as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, Revised (October 2011). FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards-setting body for United States government entities. The statements present the financial position, net cost of operations, changes in net position, and budgetary resources of NASA, as required by the Chief Financial Officers Act of 1990, Public Law (P.L.) 101-576, and the Government Management Reform Act (P.L. 101-356).

The financial statements should be read with the realization they are a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing resources and legal authority to do so. The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

National Aeronautics and Space Administration
 Notes to Financial Statements
 For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

NASA follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, *Preparation Submission and Execution of the Budget*. To accomplish the goals of NASA's R&D/other initiatives, Congress funds NASA through appropriations: Science, Aeronautics, Exploration, Space Operations, Education, Cross-NASA Support, Inspector General, and Construction and Environmental Compliance and Remediation. Reimbursements to NASA are used to fund agreements between NASA and other Federal entities or the Public.

Research and Development (R&D), Other Initiatives and Similar Costs

NASA makes substantial R&D investments for the benefit of the United States. NASA's R&D programs include activities to extend our knowledge of Earth, its space environment, and the universe; and to invest in new aeronautics and advanced space transportation technologies supporting the development and application of technologies critical to the economic, scientific, and technical competitiveness of the United States. Following guidance outlined in the Federal Accounting Standards Advisory Board's (FASAB) Technical Release No. 7, NASA applies the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 730-10-25, *Research and Development - Recognition*, and FASB ASC 730-10-50 *Research and Development - Disclosure*, to its R&D projects.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NASA requires major contractors to provide an estimate of their anticipated billing prior to their sending the actual invoice. In addition, NASA requires the contractors to provide an estimate for the next month's anticipated work. When NASA receives these estimates they are compared to the contract under which the work is performed. If the estimate exceeds a specified funding line item, the program manager and the procurement official, as necessary, review the estimate prior to posting in the general ledger as an estimated liability. If the review is not completed within the time-frame for quarterly or annual reporting, NASA uses the estimates of activity through the current period to establish an estimated liability. However, in this instance NASA fully recognizes that "no agency has the authority to pay liabilities not covered by budgetary resources." Liability to the contractor is not established by receipt of these estimates, but only when accepted by NASA.

NASA applies *Statement of Federal Financial Accounting Standard (SFFAS) No. 35* in valuing General PP&E when historical cost information is not available.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents NASA's funds held on deposit with the U.S. Treasury that are available to make expenditures and pay liabilities. NASA's FBWT balance is comprised in general funds, trust funds, and other types of funds.

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in U.S. Government Securities

National Aeronautics and Space Administration investments include the following Intragovernmental non-marketable securities:

1. The Endeavor Teacher Fellowship Trust Fund (Endeavor Trust Fund) was established from public donations in tribute to the crew of the Space Shuttle Challenger. The Endeavor Trust Fund balance is invested in short-term bills. P.L. 102-195 requires the interest earned from the Endeavor Trust Fund investments be used to create the Endeavor Teacher Fellowship Program.
2. The Science, Space and Technology Education Trust Fund (Challenger Trust Fund) was established for programs to improve science and technology education. The Challenger Trust Fund balance is invested in short-term bills and long-term bonds. P.L. 100-404 requires that a quarterly payment of \$250,000 is sent to the Challenger Center from interest earned on the Challenger Trust Fund investments. In order to meet the requirement of providing funds to the Challenger Center, NASA invests the bi-annual interest earned in short-term bills that mature in order to provide \$250,000 at the end of every quarter. Any interest received and not needed for the quarterly payment to the Challenger Center is invested in a bond maturing on February 15, 2019.

Accounts Receivable

The majority of NASA's receivables are for intragovernmental reimbursements of R&D costs. A small portion of NASA accounts receivable are debts to NASA by non-Federal government entities. Allowances for doubtful non-Federal accounts are based on factors such as, aging of accounts receivable, debtors' ability to pay, payment history, and other relevant factors. Also, doubtful non-Federal debts over 180 days are referred to the Treasury Department for collection or cross-servicing in accordance with the federal Debt Collection Improvement Act.

Operating Materials and Supplies

NASA does not maintain inventory stock for resale. NASA follows the purchases method of accounting for operating materials and supplies. The purchases method provides that operating materials and supplies be expensed when purchased.

Property, Plant and Equipment

NASA reports depreciation expense using the straight-line method, beginning with the month the asset is placed into service. Property with accumulated costs of \$100,000 or more, a useful life of 2 years or more, and an alternative future use is capitalized. Capitalized costs include costs incurred by NASA to bring the property to a form and location suitable for its intended use. Under provisions of the Federal Acquisition Regulation (FAR), contractors are responsible for control and accountability for Government-owned property in their possession.

NASA has barter agreements with international entities including the European Space Agency and the National Space Agency of Japan. The intergovernmental agreements state that the parties will seek to minimize the exchange of funds in the cooperative program, including the use of barter to provide goods and services. As of September 30, 2011, NASA has received some assets from these parties in exchange for future services. The fair value is indeterminable; therefore, no value was ascribed to these transactions in accordance with FASB ASC 845-10-25 *Non-Monetary Transactions – Recognition* and ASC 845-10-50 *Non-Monetary Transactions – Disclosure*. The amounts reflected in NASA's financial reports for the ISS exclude components of the ISS owned or provided by other participants in the ISS.

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

Capitalized costs for internally developed software include the full costs (direct and indirect) incurred during the software development stage only. For purchased software, capitalized costs include amounts paid to vendors for the software and material internal costs incurred by NASA to implement and make the software ready for use through acceptance testing. When NASA purchases software as part of a package of products and services (for example: training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements), capitalized and non-capitalized costs of the package are allocated among individual elements on the basis of a reasonable estimate of their relative fair market values. Costs not susceptible to allocation between maintenance and relatively minor enhancements are expensed. NASA capitalizes costs for internal use software when the total projected cost is \$1 million or more and the expected useful life of the software is 5 years or more.

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources are liabilities covered by realized budgetary resources as of the balance sheet date. Realized budgetary resources include unobligated balances of budgetary resources at the beginning of the year, new budget authority, and spending authority from offsetting collections. Examples of covered liabilities include accounts payable and salaries.

Liabilities and Contingencies Not Covered by Budgetary Resources

Generally liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. Liabilities not covered by budgetary resources include certain environmental matters, legal claims, pensions and other retirement benefits, workers' compensation, annual leave, and closed appropriations.

Federal Employee and Veterans' Benefits

A liability was recorded for workers' compensation claims related to the Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor. The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants.

The FECA liability includes the actuarial liability for estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. This liability is reported on the Federal Employee and Veteran Benefits line on the balance sheet.

National Aeronautics and Space Administration
 Notes to Financial Statements
 For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Personnel Compensation and Benefits

Annual Sick and Other Leave

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

Retirement Benefits

NASA employees participate in the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, NASA makes contributions of 7.0 percent of gross pay. For FERS employees, NASA makes contributions of gross pay of 11.7 percent to the defined benefit plan, 1 percent to a retirement saving plan (contribution plan), and matches employee contributions up to an additional 4 percent of gross pay. For FERS employees, NASA also contributes to employer's matching share for Social Security taxes.

Insurance Benefits

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires Government agencies to report the full cost of Federal Employee Health Benefits (FEHB), and the Federal Employees Group Life Insurance (FEGLI) Programs. NASA uses the applicable cost factors and data provided by the Office of Personnel and Management to value these liabilities.

NOTE 2. NON-ENTITY ASSETS

The majority of NASA's assets are considered entity assets. Non-entity assets represent amounts held by NASA on behalf of the U.S. Treasury that are not available for use by NASA.

| (In Millions of Dollars) | 2011 | 2010 |
|---------------------------------|--------------------------------|--------------------------------|
| Total Non-Entity Assets | \$ 1 | \$ — |
| Total Entity Assets | <u>19,341</u> | <u>18,328</u> |
| Total Assets | \$ <u><u>19,342</u></u> | \$ <u><u>18,328</u></u> |

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) represents the aggregate amount of the NASA's funds held on deposit with the U.S. Treasury that are available to make expenditures and pay liabilities. NASA's FBWT balance is comprised in general funds, trust funds, and other types of funds. General Funds primarily consist of appropriated funds for NASA. Trust Funds include balances in the Endeavor Trust Fund; Challenger Trust Fund; and Gifts and Donations Trust Fund. Other types of funds include Working Capital Fund; General Receipt funds; and Budget Clearing and Suspense funds..

| (In Millions Of Dollars) | 2011 | 2010 |
|--------------------------|-----------------|-----------------|
| Fund Balances: | | |
| General Funds | \$ 9,317 | \$ 8,533 |
| Trust Funds | 3 | 3 |
| Other Fund Types | 75 | 65 |
| | <hr/> | <hr/> |
| Total | \$ 9,395 | \$ 8,601 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Status of Fund Balance with Treasury is primarily the total fund balance as recorded in the general ledger for unobligated and obligated balances. Unobligated Balances - Available is the amount remaining in appropriation funds available for obligation in future fiscal years. Unobligated Balances - Unavailable is the amount remaining in appropriation funds used only for adjustments to previously recorded obligations. Obligated Balances - Not Yet Disbursed is the cumulative amount of obligations incurred for which outlays have not been made. Non-budgetary FBWT is comprised of amounts in other types of funds.

| (In Millions Of Dollars) | 2011 | 2010 |
|---|-----------------|-----------------|
| Status of Fund Balances with Treasury: | | |
| Unobligated Balances | | |
| Available | \$ 541 | \$ 459 |
| Unavailable | 136 | 156 |
| Obligated Balance not Yet Distributed | 8,675 | 7,957 |
| Non-Budgetary FBWT | 43 | 29 |
| | <hr/> | <hr/> |
| Total | \$ 9,395 | \$ 8,601 |
| | <hr/> <hr/> | <hr/> <hr/> |

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 4. INVESTMENTS

NASA's investments consist of non-marketable par value intragovernmental securities issued by Treasury's Bureau of the Public Debt. The trust fund balances are invested in Treasury securities, which are purchased at either a premium or discount, and redeemed at par value exclusively through Treasury's Federal Investment Branch. The effective-interest method was utilized to amortize premiums on bonds, and the straight-line method was utilized to amortize discounts on bills.

Interest receivable on investments was less than one-half million dollars. In addition, NASA did not have any adjustments resulting from the sale of securities prior to maturity or any change in value that is more than temporary.

2011

| (In Millions of Dollars) | Cost | Amortization Method | Amortized (Premium) Discount | Interest Receivable | Investments, Net | Other Adjustments | Market Value Disclosure |
|--------------------------|-------------|---------------------|------------------------------|---------------------|------------------|-------------------|-------------------------|
| Intragovernmental | | Straight-Line | | | | | |
| Securities: | | | | | | | |
| Non-Marketable: | | Effective-interest | | | | | |
| Par value | \$19 | 0.025 - 6.602% | \$ (2) | \$ — | \$ 17 | \$ — | \$ 17 |
| Total | \$19 | | \$ (2) | \$ — | \$ 17 | \$ — | \$ 17 |

2010

| (In Millions of Dollars) | Cost | Amortization Method | Amortized (Premium) Discount | Interest Receivable | Investments, Net | Other Adjustments | Market Value Disclosure |
|--------------------------|-------------|---------------------|------------------------------|---------------------|------------------|-------------------|-------------------------|
| Intragovernmental | | Straight-Line | | | | | |
| Securities: | | | | | | | |
| Non-Marketable: | | Effective-interest | | | | | |
| Par value | \$19 | 0.155 - 6.602% | \$ (1) | \$ — | \$ 18 | \$ — | \$ 18 |
| Total | \$19 | | \$ (1) | \$ — | \$ 18 | \$ — | \$ 18 |

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 5. ACCOUNTS RECEIVABLE, NET

The Accounts Receivable balance represents valid claims by NASA to cash or other assets of another entity. Intra-governmental Accounts Receivable represents reimbursements due from other Federal entities for goods and services provided by NASA on a reimbursable basis. Accounts Receivable Due from the Public is the total of miscellaneous debts due to NASA from employees and/or smaller reimbursements from other non-Federal entities. A periodic evaluation of public accounts receivable is performed to estimate any uncollectible amounts based on current status, financial and other relevant characteristics of debtors, and the overall relationship with the debtor. An allowance for doubtful accounts is recorded, for Accounts Receivable Due from the Public, in order to bring Accounts Receivable to its Net Realizable Value in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities*. No allowance for doubtful accounts is necessary for Accounts Receivables Due from other federal entities. The total allowance for doubtful accounts for FY 2011 and for FY 2010 was less than one-half million dollars.

| | | 2011 | | |
|---------------------------------|------------------------|--|-------------------|--|
| (In Millions of Dollars) | Accounts Receivable | Allowance for Uncollectible Accounts | Net Amount Due | |
| Intragovernmental | \$ 89 | \$ — | \$ 89 | |
| Public | 1 | — | 1 | |
| Total | \$ 90 | \$ — | \$ 90 | |

| | | 2010 | | |
|---------------------------------|------------------------|--|-------------------|--|
| (In Millions of Dollars) | Accounts Receivable | Allowance for Uncollectible Accounts | Net Amount Due | |
| Intragovernmental | \$ 69 | \$ — | \$ 69 | |
| Public | 2 | — | 2 | |
| Total | \$ 71 | \$ — | \$ 71 | |

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NOTE 6. PROPERTY, PLANT, AND EQUIPMENT, NET (PP&E)

Property, plant and equipment is depreciated using the straight-line method, beginning with the month the asset is placed into service. Property with a unit cost of \$100,000 or more and a useful life of 2 years or more and an alternative future use is capitalized. Capitalized costs include costs incurred to bring the property to a form and location suitable for its intended use. Under provisions of the Federal Acquisition Regulation (FAR), contractors are responsible for control and accountability of Government-owned property in their possession.

NASA began depreciating the International Space Station in Fiscal Year (FY) 2001 when manned by the first permanent crew. Only the Station's major elements in space, which represents U.S. owned hardware components that are delivered and installed on-orbit, are depreciated; any on-ground elements are reported as Assets Under Construction (AUC) until launched and incorporated into the existing Station structure.

NASA applies *Statement of Federal Financial Accounting Standard (SFFAS) No. 35* in valuing General PP&E when historical cost information is not available. There is no known restriction to the use or convertibility of NASA PP&E.

In 2011, NASA determined that expenditures aggregated over several years for certain satellites under construction, which were previously reported as research and development expenditures, should be accounted for as capitalized assets. NASA evaluated the effect of this matter on each of the individual years in question and determined that the effect in any given year was not material to the financial statements. It was appropriate to make this accounting change to improve the overall accuracy of the information reported at September 30, 2011. The adjustment in 2011 had the effect of increasing Property Plant and Equipment by \$699 million, decreasing Space Operation costs by \$317 million and increasing Transfers In by \$382 million.

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NOTE 6. PROPERTY, PLANT, AND EQUIPMENT, NET (PP&E) (continued)

| (In Millions of Dollars) | 2011 | | | | |
|---|---------------------|---------------|------------------|--------------------------|-----------------|
| | Depreciation Method | Useful Life | Cost | Accumulated Depreciation | Book Value |
| Space Exploration PP&E | | | | | |
| International Space Station | Straight-line | 5 - 20 years | \$ 12,465 | \$ (7,325) | \$ 5,140 |
| Space Shuttle | Straight-line | 5 - 20 years | 5,516 | (5,516) | — |
| Assets Under Construction | | N/A | 1,337 | — | 1,337 |
| Total | | | 19,318 | (12,841) | 6,477 |
| General PP&E | | | | | |
| Land | | | 122 | — | 122 |
| Structures, Facilities and Leasehold Improvements | Straight-line | 15 - 40 years | 8,669 | (6,480) | 2,189 |
| Institutional Equipment | Straight-line | 5 - 20 years | 1,410 | (1,116) | 294 |
| Construction in Process | | N/A | 719 | — | 719 |
| Internal Use Software and Development | Straight-line | 5 years | 226 | (187) | 39 |
| Total | | | 11,146 | (7,783) | 3,363 |
| Total Property, Plant, and Equipment | | | \$ 30,464 | \$ (20,624) | \$ 9,840 |

| (In Millions of Dollars) | 2010 | | | | |
|---|--------------------|---------------|------------------|--------------------------|-----------------|
| | Depreciated Method | Useful Life | Cost | Accumulated Depreciation | Book Value |
| Space Exploration PP&E | | | | | |
| International Space Station | Straight-line | 5 - 20 years | \$ 12,584 | \$ (6,312) | \$ 6,272 |
| Space Shuttle | Straight-line | 5 - 20 years | 8,468 | (8,468) | — |
| Assets Under Construction | | N/A | 316 | — | 316 |
| Total | | | 21,368 | (14,780) | 6,588 |
| General PP&E | | | | | |
| Land | | | 123 | — | 123 |
| Structures, Facilities and Leasehold Improvements | Straight-line | 15 - 40 years | 8,044 | (6,165) | 1,879 |
| Institutional Equipment | Straight-line | 5 - 20 years | 1,312 | (1,040) | 272 |
| Construction in Process | | N/A | 715 | — | 715 |
| Internal Use Software and Development | Straight-line | 5 years | 223 | (165) | 58 |
| Total | | | 10,417 | (7,370) | 3,047 |
| Total Property, Plant, and Equipment | | | \$ 31,785 | \$ (22,150) | \$ 9,635 |

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NOTE 7. STEWARDSHIP PP&E

Federal agencies are required to classify and report heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*.

Stewardship PP&E have physical characteristics similar to those of general PP&E (G-PP&E) but differ from G-PP&E because their value is more intrinsic and not easily determinable in dollars. The only type of stewardship PP&E owned by NASA are Heritage Assets.

Heritage Assets are G-PP&E which possess one or more of the following characteristics:

- Historical or natural significance;
- Cultural, educational, or aesthetic value, or
- Significant architectural characteristics.

Dollar value and useful life of heritage assets are not easily determinable. There is no minimum dollar threshold for designating a G-PP&E as heritage asset, and depreciation expense is not taken on these assets. For these reasons, heritage assets are reported in physical units, rather than with assigned dollar values. In accordance with SFFAS No. 29, the cost of acquisition, improvement, reconstruction, or renovation of heritage assets is expensed in the period incurred.

Heritage assets that are used in day-to-day government operations are considered “multi-use” heritage assets that are not used for heritage purposes. Such assets are accounted for as G-PP&E and are capitalized and depreciated in the same manner as other G-PP&E. As of September 30, 2011, NASA had 112 buildings, structures, and equipment that are considered to be multi-use heritage assets. The values of these assets are included in the G-PP&E values shown in the Financial Statements.

When a G-PP&E is designated as heritage asset, its cost and accumulated depreciation are removed from the books. They remain on the record as heritage assets, except where there is legal authority for transfer or sale. However, they are withdrawn when they become inactive or reclassified as multi-use heritage assets. Heritage assets are generally in fair condition suitable for display.

NASA currently has three major classes of heritage assets: Buildings and Structures; Air and Space Displays and Artifacts; and, Art and Miscellaneous Items. The first two categories of heritage assets support NASA's mission by providing the public with tangible examples of assets which were built and deployed to support NASA's mission. Typically the Buildings and Structures have been designated as National Historic Landmarks. These real life assets enhance the public's understanding of NASA's numerous programs.

The third category of heritage assets, Art and Miscellaneous Items is mainly comprised of items created by artists who have generously contributed their time and talent to record their impressions of the U.S. Aerospace Program in paintings, drawings, and other media. These works of art not only provide a historic record of NASA projects, but they support NASA's mission by giving the public a new and fuller understanding of advancements in aerospace. Artists give a special view of NASA through the back door. Some have witnessed astronauts in training or scientists at work. The art collection, as a whole, depicts a wide range of subjects, from Space Shuttle launches to aeronautics research, Hubble Space Telescope, and even virtual reality.

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NOTE 7. STEWARDSHIP PP&E (continued)

The following table depicts NASA's heritage assets inventory:

| | 2010 | Additions | Withdrawals | 2011 |
|--------------------------------------|--------------|-----------|-------------|--------------|
| Buildings and Structures | 16 | 3 | 6 | 13 |
| Air and Space Displays and Artifacts | 525 | 8 | 52 | 481 |
| Art and Miscellaneous Items | 1,019 | 1 | 15 | 1,005 |
| Total Heritage Assets | 1,560 | 12 | 73 | 1,499 |
| | 2009 | Additions | Withdrawals | 2010 |
| Buildings and Structures | 12 | 5 | 1 | 16 |
| Air and Space Displays and Artifacts | 523 | 20 | 18 | 525 |
| Art and Miscellaneous Items | 1,014 | 6 | 1 | 1,019 |
| Total Heritage Assets | 1,549 | 31 | 20 | 1,560 |

NOTE 8. OTHER ASSETS

The Other Assets balance represents general PP&E assets that NASA determines are no longer needed and are awaiting disposal, retirement, or removal from services. These amounts are recorded at estimated net realizable value.

| (In Millions of Dollars) | 2011 | 2010 |
|--------------------------|-------------|-------------|
| Pending Disposal | \$ — | \$ 3 |
| Total | \$ — | \$ 3 |

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NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. They include certain environmental matters (See Note 10, Environmental and Disposal Liabilities for more information), annual leave, workers' compensation under the Federal Employees' Compensation Act (FECA) administered by the Department of Labor, closed appropriations, legal claims and pensions and other retirement benefits.

The present value of the FECA actuarial liability estimates at year-end was calculated by the Department of Labor using a discount rate of 4.03% in FY 2011 and 3.54% in FY 2010. This liability includes the estimated future costs for claims incurred but not reported or approved as of the end of each year. NASA has recorded Accounts Payable related to closed appropriations for which there are contractual commitments to pay. These payables will be funded from appropriations available for obligation at the time a bill is processed, in accordance with P.L. 101-510, National Defense Authorization Act.

| (In Millions of Dollars) | 2011 | 2010 |
|---|------------------------|------------------------|
| Intragovernment Liabilities: | | |
| Other Liabilities | | |
| Workers' Compensation | \$ 13 | \$ 13 |
| Accounts Payable for Closed Appropriations | 4 | 3 |
| Total Intragovernmental | <u>17</u> | <u>16</u> |
| Public Liabilities: | | |
| Accounts Payable | | |
| Accounts Payable for Closed Appropriations | 38 | 35 |
| Federal Employee and Veterans Benefits | | |
| Actuarial FECA Liability | 51 | 55 |
| Environmental and Disposal Liabilities | 1,445 | 1,041 |
| Less: Environmental and Disposal Liabilities- Funded | (226) | |
| Other Liabilities | | |
| Unfunded Annual Leave | 215 | 213 |
| Total Liabilities Not Covered by Budgetary Resources | <u>1,540</u> | <u>1,360</u> |
| Total Liabilities Covered by Budgetary Resources | <u>3,109</u> | <u>2,953</u> |
| Total Liabilities | <u>\$ 4,649</u> | <u>\$ 4,313</u> |

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NOTE 10. ENVIRONMENTAL AND DISPOSAL LIABILITIES

| (In Millions of Dollars) | 2011 | 2010 |
|------------------------------------|-----------------|-----------------|
| Environmental Liabilities | \$ 1,445 | \$ 1,041 |
| Total Environmental Cleanup | \$ 1,445 | \$ 1,041 |

Environmental and Disposal Liabilities represents cleanup costs resulting from:

- Operations that include facilities obtained from other governmental entities that have resulted in contamination from waste disposal methods, leaks and spills;
- Other past activity that created a public health or environmental risk, or
- Total cleanup costs associated with the removal, containment, and/or disposal of hazardous wastes or material and/or property that have been deferred until operation of associated property, plant, and equipment (PP&E) ceases either permanently or temporarily.

Federal, State, and local statutes and regulations require environmental cleanup. Some of these statutes include: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Nuclear Waste Policy Act of 1982; as well as State and local laws.

NASA assesses the likelihood of required cleanup as probable, reasonably possible or remote. If the likelihood of required cleanup is probable and the cost can be reasonably estimated, a liability is recorded in the financial statements. If the likelihood of required cleanup is reasonably possible, the estimated cost of cleanup is disclosed in the notes to the financial statements. If the likelihood of required cleanup is remote, no liability is recorded or estimate disclosed.

If site-specific engineering estimates for cleanup are not available, NASA employs parametric modeling software to estimate the total cost of cleaning up known contamination at these sites for current and future years. The estimates calculated by the parametric models may be classified as probable or reasonably possible.

Consistent with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, NASA estimates the anticipated environmental disposal cleanup costs for current and planned capital PP&E. NASA recognizes and records in its financial statements an environmental cleanup liability for those in-service PP&E with a probable and measurable environmental cleanup liability of \$100,000 or more.

Probable Environmental and Disposal Liabilities

In FY 2011, NASA recorded an additional \$404 million dollars of environmental and disposal liabilities to reflect the estimated total cost of environmental cleanup on known hazardous conditions bringing the total to \$1,445 million, which includes anticipated cleanup at disposal for Space Shuttle and PP&E. The amount recorded in FY 2010 was \$1,041 million. The majority of the increase is due to changes in individual project estimates and additional liabilities from disposal-related cleanup costs for PP&E.

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NOTE 10. ENVIRONMENTAL AND DISPOSAL LIABILITIES (continued)

The estimate for unfunded environmental liabilities could change in the future due to identification of additional contamination, inflation, deflation, a change in technology or applicable laws and regulations as well as through ordinary liquidation of these liabilities as the cleanup program continues into the future. Estimates change primarily due to updated information being available on the extent of contamination and remediation efforts that would be required.

Reasonably Possible Environmental and Disposal Liabilities

In addition to the probable cleanup costs for known hazardous conditions recognized in the financial statements, there are other potential remediation sites where the likelihood of required cleanup for known hazardous conditions is reasonably possible. FY 2011 remediation costs at certain sites classified as reasonably possible were estimated to be \$1 million dollars. In FY 2010, these remediation costs were estimated to be \$116 million.

The costs necessary to cleanup Space Shuttle equipment for museum display are expected to be the responsibility of the institution displaying the equipment. If NASA is required to incur those costs, NASA estimated \$46 million of Space Shuttle disposal costs in FY 2010 and \$28.8 million in FY 2011 (for the periods from FY 2013 through FY 2016) as reasonably possible. Consistent with NASA's approach described above, this reasonably possible estimate is not recorded but is disclosed in the financial statements.

With respect to environmental remediation that NASA believes is reasonably possible but not estimable, NASA believes that either the likelihood of NASA liability is less than probable but more than remote or the regulatory drivers and/or technical data that exist are not reliable enough to calculate an estimate.

Other Information

The currently proposed decommissioning approach is to execute a controlled, targeted deorbit of the International Space Station (ISS) to a remote ocean location. This is consistent with the approach used to deorbit other space vehicles such as Russian's Progress, Europe's Automated Transfer Vehicle (ATV) and Japan's H-II Transfer Vehicle (HTV). The target reliability for this decommissioning approach is calculated at 99 percent. Based on past experience with the re-entry of satellites, larger portions or fragments of the ISS would be expected to survive the thermal and aerodynamic stresses of re-entry. The debris footprint associated with the deorbit of the ISS would be targeted for remote ocean regions. The disposal of satellites and vehicles into broad ocean areas with a controlled deorbit has left little evidence of their re-entry. Any hazardous materials on board the ISS would be removed or jettisoned prior to the decommissioning. As a result, only residual quantities, if any, of hazardous, toxic, and radioactive materials would remain prior to the decommissioning. These would be expected to vaporize during the re-entry. Any remaining contamination in the ISS debris field would not be expected to have a substantive impact on marine life. Therefore, the probability of NASA incurring environmental cleanup costs related to the ISS is remote and, in accordance with SFFAS 5 & 6, no estimate for such costs has been developed or reported in these financial statements.

NASA maintains numerous structures and facilities, some of which are known to contain asbestos. Current accounting pronouncements do not require the recording of a contingent liability resulting from future asbestos remediation efforts. NASA is in the process of developing an estimate consistent with FASAB guidance.

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NOTE 11. OTHER LIABILITIES

Other Liabilities are comprised of intragovernmental liabilities with other federal entities and liabilities with public entities. Other Accrued Liabilities primarily consist of the accrual of contractor costs for goods and services. The period of performance for contractor contracts typically spans the duration of NASA programs, which could be numerous years prior to final delivery of the product. In such cases, NASA records a cost accrual throughout the fiscal year as the work is performed. Other Liabilities also includes federal employee payroll and benefit liabilities, including unfunded annual leave and funded sick leave that has been earned but not taken, and salaries and wages that have been earned but are unpaid.

| (In Millions of Dollars) | 2011 | | |
|--|-----------------|---------------|-----------------|
| | Current | Non Current | Total |
| Intragovernmental Liabilities: | | | |
| Advances From Others | \$ 80 | \$ — | \$ 80 |
| Workers' Compensation | 6 | 7 | 13 |
| Employer Contributions and Payroll Taxes | 7 | — | 7 |
| Liability for Deposit and Clearing Funds | 6 | — | 6 |
| Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity | 1 | — | 1 |
| Other Accrued Liability | 4 | — | 4 |
| Total Intragovernmental | 104 | 7 | 111 |
| Unfunded Annual Leave | — | 215 | 215 |
| Accrued Funded Payroll | 44 | — | 44 |
| Advances from Others | 33 | — | 33 |
| Employer Contributions and Payroll Taxes | 4 | — | 4 |
| Liability for Deposit and Clearing Funds | 37 | — | 37 |
| Other Accrued Liabilities | 1,179 | — | 1,179 |
| Total from the Public | 1,297 | 215 | 1,512 |
| Total Other Liabilities | \$ 1,401 | \$ 222 | \$ 1,623 |
| 2010 | | | |
| (In Millions of Dollars) | Current | Non-Current | Total |
| Intragovernmental Liabilities: | | | |
| Advances From Others | \$ 64 | \$ — | \$ 64 |
| Workers' Compensation | 5 | 8 | 13 |
| Employer Contributions and Payroll Taxes | 25 | — | 25 |
| Liability for Deposit and Clearing Funds | — | — | — |
| Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity | — | — | — |
| Other Accrued Liability | 6 | — | 6 |
| Total Intragovernmental | 100 | 8 | 108 |
| Unfunded Annual Leave | — | 213 | 213 |
| Accrued Funded Payroll | 115 | — | 115 |
| Advances from Others | 35 | — | 35 |
| Employer Contributions and Payroll Taxes | 4 | — | 4 |
| Liability for Deposit and Clearing Funds | 28 | — | 28 |
| Other Accrued Liabilities | 1,252 | — | 1,252 |
| Total from the Public | 1,434 | 213 | 1,647 |
| Total Other Liabilities | \$ 1,534 | \$ 221 | \$ 1,755 |

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NOTE 12. CONTINGENT LIABILITIES

NASA is a party in various administrative proceedings, court actions (including tort suits), and claims. For cases management and legal counsel believe it is probable that the outcomes will result in a loss to NASA, liabilities are recorded. For September 30, 2011 and September 30, 2010, the amount of liability recorded was less than \$1 million. There were certain cases reviewed by legal counsel where the probable future loss is remote and as such no liability has been recorded in connection with these cases.

NASA is concluding the Constellation and Space Shuttle programs; as a result, certain contracts in support of these programs are nearing completion. It is possible that additional liabilities and costs may result, including those to cover employee benefit plans. In addition, certain other contracts may contain provisions regarding contingency obligations to fund accumulated unfunded employee benefit plans upon contract termination.

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NOTE 13. INTRAGOVERNMENTAL COST AND EXCHANGE REVENUE

Intragovernmental costs and revenue are exchange transactions made between NASA and other federal government entities. Costs and revenue with the Public result from transactions between NASA and other non-federal entities.

| (In Millions of Dollars) | 2011 | 2010 |
|---|-------------------------|-------------------------|
| Aeronautics Research | | |
| Intragovernmental Costs | \$ 60 | \$ 46 |
| Public Cost | 748 | 770 |
| Total Aeronautics Research Costs | <u>808</u> | <u>816</u> |
| Less: | | |
| Intragovernmental Earned Revenue | 101 | 103 |
| Public Earned Revenue | 18 | 16 |
| Total Aeronautics Research Earned Revenue | <u>119</u> | <u>119</u> |
| Total Aeronautics Research Net Cost | <u>\$ 689</u> | <u>\$ 697</u> |
| Exploration Systems | | |
| Intragovernmental Costs | \$ 228 | \$ 250 |
| Public Cost | 4,563 | 5,110 |
| Total Exploration Systems Costs | <u>4,791</u> | <u>5,360</u> |
| Less: | | |
| Intragovernmental Earned Revenue | 48 | 45 |
| Public Earned Revenue | 20 | 17 |
| Total Exploration Systems Earned Revenue | <u>68</u> | <u>62</u> |
| Total Exploration Systems Net Cost | <u>\$ 4,723</u> | <u>\$ 5,298</u> |
| Science | | |
| Intragovernmental Costs | \$ 400 | \$ 411 |
| Public Cost | 6,630 | 6,286 |
| Total Science Costs | <u>7,030</u> | <u>6,697</u> |
| Less: | | |
| Intragovernmental Earned Revenue | 985 | 623 |
| Public Earned Revenue | 34 | 26 |
| Total Science Earned Revenue | <u>1,019</u> | <u>649</u> |
| Total Science Net Cost | <u>\$ 6,011</u> | <u>\$ 6,048</u> |
| Space Operations | | |
| Intragovernmental Costs | \$ 401 | \$ 404 |
| Public Cost | 6,852 | 9,290 |
| Total Space Operations Costs | <u>7,253</u> | <u>9,694</u> |
| Less: | | |
| Intragovernmental Earned Revenue | (20) | 369 |
| Public Earned Revenue | 78 | 60 |
| Total Space Operations Earned Revenue | <u>58</u> | <u>429</u> |
| Total Space Operations Earned Net Cost | <u>\$ 7,195</u> | <u>\$ 9,265</u> |
| Net Cost of Operations | <u>\$ 18,618</u> | <u>\$ 21,308</u> |

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**NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED:
DIRECT VS. REIMBURSABLE OBLIGATIONS**

Category A consists of amounts requested to be apportioned for each calendar quarter in the fiscal year. Category B consists of amounts requested to be apportioned on a basis other than calendar quarters, such as time periods other than quarters, activities, projects, objects, or a combination thereof.

| (In Millions of Dollars) | 2011 | 2010 |
|-----------------------------------|------------------|------------------|
| Direct Obligations: | | |
| Category A | \$ 1 | \$ 1 |
| Category B | 18,601 | 19,412 |
| Reimbursable Obligations: | | |
| Category B | 2,037 | 1,481 |
| Total Obligations Incurred | \$ 20,639 | \$ 20,894 |

NOTE 15. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE U.S. GOVERNMENT

The FY 2013 *Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2011 has not been published as of the issue date of these financial statements. The FY 2013 President's Budget is scheduled for publication in 2012.

NASA reconciled the amounts of the FY 2010 column on the Statement of Budgetary Resources (SBR) to the actual amounts for FY 2010 in the FY 2012 President's Budget for budgetary resources, obligations incurred, distributed offsetting receipts and net outlays as presented below.

| (In Millions of Dollars) | Budgetary Resources | Obligations | Distributed Offsetting Receipts | Net Outlays |
|--|------------------------|------------------|---------------------------------------|------------------|
| Combined Statement of Budgetary Resources | \$ 21,509 | \$ 20,894 | \$ 8 | \$ 18,905 |
| Included on SBR, not in the President's Budget | | | | |
| Expired Accounts | (154) | (15) | — | — |
| Distributed Offsetting Receipts | — | — | (8) | 8 |
| Other | 3 | — | — | — |
| Budget of the United States Government | \$ 21,358 | \$ 20,879 | \$ — | \$ 18,913 |

The difference between the SBR and the President's Budget represents expired, distributed offsetting receipts reported on the SBR but not in the President's Budget and other is primarily rounding.

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NOTE 16. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders at the end of the period totaled \$6.8 billion and \$5.9 billion as of September 30, 2011 and September 30, 2010, respectively.

NOTE 17. RECONCILIATION OF NET COST TO BUDGET

SFFAS No.7, *Accounting for Revenues and Other Financing Concepts for Reconciling Budgetary and Financial Accounting*, requires a reconciliation of proprietary and budgetary accounting information. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources.

| (In Millions of Dollars) | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Resources Used to Finance Activities | | |
| Budgetary Resources Obligated | | |
| Obligation Incurred | \$ 20,639 | \$ 20,894 |
| Less: Spending Authority from Offsetting Collections and Recoveries | 2,288 | 1,557 |
| Obligations Net of Offsetting Collections and Recoveries | <u>18,351</u> | <u>19,337</u> |
| Less: Offsetting Receipts | 4 | — |
| Net Obligations | <u>18,347</u> | <u>19,337</u> |
| Other Resources | | |
| Donations & Forfeitures of Property | 15 | 12 |
| Transfers In/Out Without Reimbursements | 676 | (2) |
| Imputed Financing from Costs Absorbed by Others | 193 | 164 |
| Net Other Resources Used to Finance Activities | <u>884</u> | <u>174</u> |
| Total Resources Used to Finance Activities | 19,231 | 19,511 |
| Resources Used to Finance Items Not Part of the Net Cost of Operations | | |
| Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided | (823) | (245) |
| Resources that Fund Expenses Recognized in Prior Periods | (4) | (29) |
| Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Costs of Operations—Other | 5 | — |
| Resources that Finance the Acquisition of Assets | (2,317) | (2,172) |
| Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations | <u>(690)</u> | <u>(10)</u> |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | <u>(3,829)</u> | <u>(2,456)</u> |
| Total Resources Used to Finance the Net Cost of Operations | \$ 15,402 | \$ 17,055 |

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NOTE 17. RECONCILIATION OF NET COST TO BUDGET (continued)

| (In Millions of Dollars) | 2011 | 2010 |
|---|------------------|------------------|
| Components of Net Cost that Will Not Require or Generate Resources in the Current Period | | |
| Components Requiring or Generating Resources in Future Periods | | |
| Increases in Annual Leave Liability | \$ 2 | \$ 5 |
| Increases in Environmental and Disposal Liability | 404 | 119 |
| Other | 4 | 10 |
| | <hr/> | <hr/> |
| Total Components of Net Cost that Will Require or Generate Resources in Future Periods | 410 | 134 |
| | <hr/> | <hr/> |
| Components Not Requiring or Generating Resources | | |
| Depreciation | 715 | 1,444 |
| Revaluation of Assets or Liabilities | (1) | 10 |
| Other | 2,092 | 2,665 |
| | <hr/> | <hr/> |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources | 2,806 | 4,119 |
| | <hr/> | <hr/> |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period | 3,216 | 4,253 |
| | <hr/> | <hr/> |
| Net Cost of Operations | \$ 18,618 | \$ 21,308 |
| | <hr/> <hr/> | <hr/> <hr/> |

National Aeronautics and Space Administration
Notes to Financial Statements
For the Fiscal Years 2011 (audited) and 2010 (audited)

NOTE 18. OTHER INFORMATION

NASA does not maintain inventory stock for resale. NASA follows the purchases method of accounting for operating materials and supplies. The consumption method is not cost beneficial and does not provide the best presentation of NASA's R&D operations. The purchases method provides that operating materials and supplies be expensed when purchased. Prior to FY 2010, amounts displayed as operating materials and supplies were accounted for under the consumption method. In FY 2010, NASA adopted a change in accounting principle and implemented the purchases method of accounting. SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles, states that the cumulative effect of the change on prior periods should be reported as a change in accounting principle. Accordingly, NASA adjusted the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position by \$3,019 million.

National Aeronautics and Space Administration

Required Supplementary Stewardship Information

Fiscal Years 2011, 2010, 2009, 2008, and 2007

Stewardship Investments: Research and Development and Other Initiatives

NASA's programs and activities are carried out through four R&D/Other initiatives: Aeronautics Research, Exploration Systems, Science and Space Operations. Each R&D/Other initiative costs are presented by the applicable NASA themes, which are described in the note. To provide a complete analysis of NASA cost, both R&D and non-R&D costs are presented. Non R&D costs are associated with NASA activities such as Education and Outreach, Space Operations Programs. Descriptions for the work associated with these costs are also presented.

The FY 2011 RSSI has been revised to provide a Basic, Applied and Development breakout of the Agency's research and development costs. In order to provide the additional levels of detail, NASA enhanced its evaluation process. In prior fiscal years NASA evaluated its costs at the Initiative level to determine R&D versus non-R&D cost. For FY 2011, the Agency re-evaluated its costs at the project level which resulted in a reclassification to the previously published RSSI subtotals. It was appropriate to revise the RSSI to improve the overall accuracy of the information reported at September 30, 2011. As a result of this enhanced process, some costs previously classified as R&D have been reclassified as non-R&D. The total costs incurred did not change.

National Aeronautics and Space Administration
 Required Supplementary Stewardship Information
 Fiscal Years 2011, 2010, 2009, 2008, and 2007
 Stewardship Investments: Research and Development and Other Initiatives

Research and Development and Other Initiative Costs by Theme

| (In Millions of Dollars) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---------------------------------------|-----------------|-----------------|---------------|---------------|---------------|
| Research and Development Costs | | | | | |
| Basic | | | | | |
| Aeronautics: | | | | | |
| Aeronautics Indirect Cost* | \$ 1 | \$ 1 | \$ — | \$ — | \$ — |
| Subtotal | \$ 1 | \$ 1 | \$ — | \$ — | \$ — |
| Exploration Systems: | | | | | |
| Human Exploration Capacity | \$ — | \$ — | \$ — | \$ — | \$ 35 |
| Exploration Research and Development | — | — | 18 | 29 | — |
| Exploration Indirect Cost* | 5 | 5 | 1 | 1 | 1 |
| Subtotal | \$ 5 | \$ 5 | \$ 19 | \$ 30 | \$ 36 |
| Science | | | | | |
| Earth Science | \$ 304 | \$ 306 | \$ 325 | \$ 294 | \$ 258 |
| Planetary Science | 264 | 257 | 266 | 238 | 201 |
| Astrophysics | 198 | 194 | 149 | 103 | 90 |
| Heliophysics | 85 | 85 | 62 | 51 | 39 |
| Science Indirect Cost* | 7 | 7 | 17 | 46 | 49 |
| Subtotal | \$ 858 | \$ 849 | \$ 819 | \$ 732 | \$ 637 |
| Space Operations | | | | | |
| International Space Station | \$ 258 | \$ 363 | \$ — | \$ — | \$ — |
| Space and Flight Support | 1 | — | — | — | — |
| Space Operation Indirect Cost* | 8 | 9 | 3 | 2 | 2 |
| Subtotal | \$ 267 | \$ 372 | \$ 3 | \$ 2 | \$ 2 |
| Total Basic Expenses | \$ 1,131 | \$ 1,227 | \$ 841 | \$ 764 | \$ 675 |

National Aeronautics and Space Administration

Required Supplementary Stewardship Information

Fiscal Years 2011, 2010, 2009, 2008, and 2007

Stewardship Investments: Research and Development and Other Initiatives

Research and Development and Other Initiative Costs by Theme (continued)

| (In Millions of Dollars) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Applied | | | | | |
| Aeronautics: | | | | | |
| Aeronautics Research | \$ 429 | \$ 464 | \$ 465 | \$ 472 | \$ 376 |
| Aeronautics Indirect Cost* | 4 | 3 | 3 | 3 | 5 |
| Subtotal | \$ 433 | \$ 467 | \$ 468 | \$ 475 | \$ 381 |
| Exploration Systems | | | | | |
| Exploration Research and Development | \$ 124 | \$ 152 | \$ 169 | \$ 159 | \$ 107 |
| Exploration Indirect Cost* | 28 | 26 | 21 | 17 | 17 |
| Subtotal | \$ 152 | \$ 178 | \$ 190 | \$ 176 | \$ 124 |
| Science | | | | | |
| Earth Science | \$ 38 | \$ 41 | \$ 40 | \$ 39 | \$ 23 |
| Science Indirect Cost* | 36 | 31 | 26 | 24 | 26 |
| Subtotal | \$ 74 | \$ 72 | \$ 66 | \$ 63 | \$ 49 |
| Space Operations | | | | | |
| International Space Station | \$ 1,260 | \$ 1,773 | \$ — | \$ — | \$ — |
| Space and Flight Support | 5 | — | — | — | — |
| Space Operation Indirect Cost* | 40 | 42 | 34 | 29 | 30 |
| Subtotal | \$ 1,305 | \$ 1,815 | \$ 34 | \$ 29 | \$ 30 |
| Total Applied Expenses | \$ 1,964 | \$ 2,532 | \$ 758 | \$ 743 | \$ 584 |
| Development | | | | | |
| Aeronautics: | | | | | |
| Aeronautics Indirect Cost* | \$ 1 | \$ 2 | \$ 1 | \$ — | \$ 1 |
| Subtotal | \$ 1 | \$ 2 | \$ 1 | \$ — | \$ 1 |
| Exploration Systems: | | | | | |
| Human Exploration Capacity | \$ 2,431 | \$ 3,197 | \$ 1,478 | \$ 1,468 | \$ 743 |
| Exploration Research and Development | 185 | 227 | 253 | 239 | 161 |
| Commercial Space Flight | — | — | 122 | — | — |
| Exploration Indirect Cost* | 11 | 11 | 5 | 5 | 4 |
| Subtotal | \$ 2,627 | \$ 3,435 | \$ 1,858 | \$ 1,712 | \$ 908 |
| Science | | | | | |
| Earth Science | \$ 665 | \$ 536 | \$ 420 | \$ 307 | \$ 212 |
| Planetary Science | 738 | 704 | 627 | 643 | 491 |
| Astrophysics | 406 | 480 | 552 | 72 | 61 |
| Heliophysics | 288 | 284 | 207 | 151 | 133 |
| Science Indirect Cost* | 14 | 13 | 118 | 598 | 525 |
| Subtotal | \$ 2,111 | \$ 2,017 | \$ 1,924 | \$ 1,771 | \$ 1,422 |
| Space Operations | | | | | |
| Space and Flight Support | \$ 4 | \$ — | \$ — | \$ — | \$ — |
| Space Operation Indirect Cost* | 16 | 18 | 8 | 7 | 8 |
| Subtotal | \$ 20 | \$ 18 | \$ 8 | \$ 7 | \$ 8 |
| Total Development Expenses | \$ 4,759 | \$ 5,472 | \$ 3,791 | \$ 3,490 | \$ 2,339 |
| Total Research and Development | \$ 7,854 | \$ 9,231 | \$ 5,390 | \$ 4,997 | \$ 3,598 |

National Aeronautics and Space Administration
 Required Supplementary Stewardship Information
 Fiscal Years 2011, 2010, 2009, 2008, and 2007
 Stewardship Investments: Research and Development and Other Initiatives

Non-Research and Development and Other Initiative Costs by Theme

| (In Millions of Dollars) | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|------------------|------------------|------------------|------------------|------------------|
| Non-Research and Development Cost | | | | | |
| Aeronautics: | | | | | |
| Aeronautics Research | \$ 110 | \$ 83 | \$ 144 | \$ 150 | \$ 170 |
| Aeronautics Indirect Cost* | 263 | 263 | 215 | 154 | 148 |
| Subtotal | \$ 373 | \$ 346 | \$ 359 | \$ 304 | \$ 318 |
| Exploration Systems: | | | | | |
| Human Exploration Capacity | \$ 239 | \$ 184 | \$ 1,672 | \$ 1,624 | \$ 989 |
| Exploration Research and Development | 76 | 101 | 151 | 260 | 430 |
| Commercial Space Flight | 423 | 98 | — | — | — |
| Exploration Other | — | 10 | 4 | 22 | 160 |
| Exploration Indirect Cost* | 1,269 | 1,349 | 1,259 | 987 | 570 |
| Subtotal | \$ 2,007 | \$ 1,742 | \$ 3,086 | \$ 2,893 | \$ 2,149 |
| Science | | | | | |
| Earth Science | \$ 543 | \$ 677 | \$ 800 | \$ 1,083 | \$ 1,073 |
| Planetary Science | 432 | 374 | 429 | 512 | 665 |
| Astrophysics | 385 | 414 | 299 | 188 | 226 |
| Heliophysics | 223 | 231 | 283 | 419 | 309 |
| Science Other | 4 | 17 | 88 | 243 | 246 |
| Science Indirect Cost* | 2,400 | 2,046 | 1,898 | 1,381 | 879 |
| Subtotal | \$ 3,987 | \$ 3,759 | \$ 3,797 | \$ 3,826 | \$ 3,398 |
| Space Operations | | | | | |
| Space Shuttle | \$ 1,774 | \$ 3,215 | \$ 3,277 | \$ 3,394 | \$ 3,445 |
| International Space Station | 1,805 | 786 | 2,148 | 1,582 | 1,397 |
| Space and Flight Support | 708 | 825 | 804 | 687 | 534 |
| Space Operation Indirect Cost* | 1,374 | 2,663 | 4,796 | 1,748 | 1,027 |
| Subtotal | \$ 5,661 | \$ 7,489 | \$ 11,025 | \$ 7,411 | \$ 6,403 |
| Total Non-Research and Development Expenses | \$ 12,028 | \$ 13,336 | \$ 18,267 | \$ 14,434 | \$ 12,268 |
| Total Expenses | \$ 19,882 | \$ 22,567 | \$ 23,657 | \$ 19,431 | \$ 15,866 |

*Indirect Costs represents R&D and Non R&D costs incurred by the Agency for various activities that support the Agency's Research and Development and Other Initiatives. These activities relate to the areas of Construction and Environmental Compliance and Restoration; Education; Institutional Investments; Congressionally Directed items; Management and Operations; and the Office of Inspector General.

National Aeronautics and Space Administration

Required Supplementary Stewardship Information

Fiscal Years 2011, 2010, 2009, 2008, and 2007

Stewardship Investments: Research and Development and Other Initiatives

STEWARDSHIP INVESTMENTS: Research and Development and Other Initiatives (continued)

NASA makes substantial research and development investments for the benefit of the nation. These amounts are expensed as incurred in determining the net cost of operations.

NASA's Research and Development and Other Initiatives programs include activities to extend our knowledge of Earth, its space environment, and the universe, and to invest in new aeronautics and advanced space transportation technologies that support the development and application of technologies critical to the economic, scientific, and technical competitiveness of the United States.

NASA defines research as systematic study towards fuller scientific knowledge or understanding of the subject matter studied. Investment in Research and Development and Other Initiatives refers to those expenses incurred to support the search for new or refined knowledge and ideas, and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

In turn, there are two types of research: basic and applied. Basic research is directed at the fundamental aspects of phenomena and observable facts without specific application toward processes or products in mind. Applied research gaining knowledge or understanding necessary to determine the means by which a recognized and specific need may be met. Additionally, development is defined. It is the systematic application of knowledge or understanding, directed towards the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements.

Research and Development and Other Initiatives: Theme

Descriptions

INITIATIVE: AERONAUTICS RESEARCH

Theme: Aeronautics Technology (AT)

The Aeronautics Technology theme develops technologies to improve aircraft and air system safety, security and performance; reduce aircraft noise and emissions; and increase the capacity of the National Airspace System (NAS). Programs include Aviation Safety, Airspace Systems Program, Fundamental Aeronautics, Aeronautics Test Program, and Integrated Systems Research.

INITIATIVE: EXPLORATION SYSTEMS

Theme: Human Exploration Capability

The Human Exploration Capability (HEC) Theme will develop the launch and space flight vehicles that will provide the initial capability for crewed exploration missions beyond Low Earth Orbit (LEO). Programs include Multi-Purpose Crew Vehicle and Space Launch System.

Theme: Exploration Research and Development

The Exploration Research and Development (ERD) Theme's technology development efforts can contribute toward advances in U.S. high technology products and services. Programs include Human Research Program and Exploration Technology Development.

National Aeronautics and Space Administration

Required Supplementary Stewardship Information

Fiscal Years 2011, 2010, 2009, 2008, and 2007

Stewardship Investments: Research and Development and Other Initiatives

Theme: Commercial Spaceflight

The Commercial Spaceflight Theme creates incentives for commercial providers to develop and operate safe, reliable, and affordable commercial systems to transport crew and cargo to and from the ISS and LEO. This approach will provide assured access to the ISS, strengthen America's space industry, and provide a catalyst for future business ventures to capitalize on affordable access to space. Programs include Commercial Cargo and Commercial Crew.

INITIATIVE: SCIENCE

Theme: Earth Science

The Earth Science Theme studies this dynamic Earth system to trace effect to cause, connect variability and forcing with response, and vastly improve national capabilities to predict climate, weather, natural hazards, and conditions in the space environment. Programs include Earth Science Research, Earth Systematic Missions, Earth System Science Pathfinder, Earth Science Multi-Mission Operations, Earth Science Technology, and Applied Sciences.

Theme: Planetary Science

The Planetary Science Theme advances scientific knowledge of the origin and history of the solar system, including the history of life and whether it evolved beyond Earth. Programs include Planetary Science Research, Lunar Quest Program, Discovery, New Frontiers, Mars Exploration, Outer Planets, and Technology.

Theme: Astrophysics

The Astrophysics Theme seeks to understand the cycles of matter and energy that formed, evolve, and govern the universe, and how they created the unique conditions that support life. Where are we from? Are we alone? NASA searches for answers to these questions looking far away, towards the beginning of time, to see galaxies forming, and close to home, in search of planetary systems like Earth around nearby stars. Programs include Astrophysics Research, Cosmic Origins, James Webb Space Telescope, Physics of the Cosmos, Exoplanet Exploration, and Astrophysics Explorer.

Theme: Heliophysics

The Heliophysics Theme studies the science of the Sun-Solar System Connection to: (1) understand the Sun and its effects on Earth, the solar system, and the space environmental conditions that will be experienced by explorers, and (2) demonstrate technologies that can improve future operational systems. Programs include Heliophysics Research, Living with a Star, Solar Terrestrial Probes, Heliophysics Explorer, and New Millennium.

INITIATIVE: SPACE OPERATIONS

Theme: Space Shuttle

Thirty-eight years ago, NASA was charged with developing the world's first reusable space transportation system, a powerful vehicle with the versatility to revolutionize how people access and operate in near-Earth space. In FY 2011, the Space Shuttle retired, marking the end of its chapter in the history of space exploration. The final flights of the Space Shuttle were dedicated to completing assembly of the International Space Station (ISS), delivering and installing the Alpha Magnetic Spectrometer (AMS) to the ISS, and prepositioning equipment so that the ISS can achieve its full research potential.

National Aeronautics and Space Administration

Required Supplementary Stewardship Information

Fiscal Years 2011, 2010, 2009, 2008, and 2007

Stewardship Investments: Research and Development and Other Initiatives

Theme: International Space Station

The International Space Station Theme supports the construction and operations of a research facility in low Earth orbit. The ISS provides a multi-disciplinary, cutting edge, unique research platform to pursue microgravity and engineering research and technology-development test bed applications. The ISS is a critical step in developing, testing, and validating the next generation of space technologies and operational processes needed to explore beyond low Earth orbit. In 2011, NASA completed assembly of the ISS and signed a Cooperative Agreement with the Center for the Advancement of Science in Space (CASIS) to serve as an independent, nonprofit research management organization to develop and manage the U.S. portion of the ISS to be operated as a National Laboratory. CASIS will be a single point of contact for U.S. (non-NASA) researchers and will be responsible for developing and managing a diversified research and development portfolio and maximizing the value of the ISS by stimulating its use as a National Laboratory.

Theme: Space and Flight Support

The Space and Flight Support Theme encompasses the 21st Century Launch Complex, Space Communications and Navigation, Human Space Flight Operations, Launch Services, Rocket Propulsion Testing, and the Space Technology Program. The Space Technology Program will advance multi-purpose technology, in some cases to flight-ready status. The Space Technology Program will complement the mission-focused technology development activities in NASA's Mission Directorates, delivering solutions to NASA's needs for new technologies in support of future NASA missions in science and exploration, as well as the needs of other government agencies and the Nation's space industry. The Space Technology Program will enable new approaches to NASA's current mission set and allow NASA to pursue entirely new missions.

The Space Technology Program will advance technology that transforms the Nation's capabilities for exploring and utilizing space. The program will support a balanced portfolio that includes near-term mission-focused technology investments and longer-range transformational technology investments that deliver revolutionary capabilities to meet NASA's goals. The Space Technology Program will mature the technologies required for the Agency's future missions in science and exploration through experimentation, tests and demonstrations; while proving new innovations that have the potential to lower the cost of space activities conducted by other government agencies and the commercial sector.

National Aeronautics and Space Administration
Required Supplementary Stewardship Information
Combining Schedule of Budgetary Resources
For the Fiscal Year Ended September 30, 2011

| | Space Operations | Science Mission | Exploration Mission | Aeronautics Mission | Cross-Agency Mission | Education Mission | Office of Inspector General | American Recovery and Reinvestment Act | Construction and Environmental Compliance | Other | Total |
|---|------------------|-----------------|---------------------|---------------------|----------------------|-------------------|-----------------------------|--|---|---------------|------------------|
| (In Millions of Dollars) | | | | | | | | | | | |
| Budgetary Resources | | | | | | | | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 154 | \$ 61 | \$ 145 | \$ 34 | \$ 23 | \$ 5 | \$ 2 | \$ 2 | \$ 85 | \$ 104 | \$ 615 |
| Recoveries of Prior Year Obligations | 50 | 58 | 42 | 6 | 41 | 3 | — | 8 | 10 | 39 | 257 |
| Budget Authority: | | | | | | | | | | | |
| Appropriation | 5,509 | 4,945 | 3,808 | 535 | 3,111 | 146 | 36 | — | 395 | 1 | 18,486 |
| Spending Authority from Offsetting Collections | | | | | | | | | | | |
| Earned | | | | | | | | | | | |
| Collected | 13 | — | — | — | 1,804 | — | 1 | 18 | 6 | 122 | 1,964 |
| Change in Receivable from Federal Sources | (3) | — | — | — | 23 | — | — | — | — | (2) | 18 |
| Change in Unfilled Orders | | | | | | | | | | | |
| Advance Received | (1) | — | — | — | 40 | — | — | (1) | — | — | 38 |
| Without Advance from Federal Sources | (4) | — | — | — | 70 | — | — | (17) | — | (38) | 11 |
| Subtotal | 5,514 | 4,945 | 3,808 | 535 | 5,048 | 146 | 37 | — | 401 | 83 | 20,517 |
| Nonexpenditure Transfers, Net: | | | | | | | | | | | |
| Actual Transfers, Budget Authority | (177) | (16) | 128 | — | 26 | — | — | — | 39 | — | — |
| Actual Transfers, Unobligation Balances | 2 | — | — | — | 1 | — | — | — | — | (3) | — |
| Permanently Not Available | | | | | | | | | | | |
| Cancellations of Expired and No-year Accounts | — | — | — | — | — | — | — | — | — | (36) | (36) |
| Enacted Reductions | (11) | (10) | (7) | (1) | (7) | — | — | — | (1) | — | (37) |
| Total Budgetary Resources | \$ 5,532 | \$ 5,038 | \$ 4,116 | \$ 574 | \$ 5,132 | \$ 154 | \$ 39 | \$ 10 | \$ 534 | \$ 187 | \$ 21,316 |
| Status of Budgetary Resources | | | | | | | | | | | |
| Obligations Incurred: | | | | | | | | | | | |
| Direct: | \$ 5,399 | \$ 4,955 | \$ 3,927 | \$ 561 | \$ 3,154 | \$ 126 | \$ 36 | \$ 8 | \$ 420 | \$ 16 | \$ 18,602 |
| Reimbursable: | 2 | — | — | — | 1,936 | — | 1 | — | 5 | 93 | 2,037 |
| Subtotal | 5,401 | 4,995 | 3,927 | 561 | 5,090 | 126 | 37 | 8 | 425 | 109 | 20,639 |
| Unobligated Balance: | | | | | | | | | | | |
| Appropriated | 89 | 79 | 188 | 12 | 30 | 27 | — | 1 | 109 | 6 | 541 |
| Unobligated Balance Not Available | 42 | 4 | 1 | 1 | 12 | 1 | 2 | 1 | — | 72 | 136 |
| Total Status of Budgetary Resources | \$ 5,532 | \$ 5,038 | \$ 4,116 | \$ 574 | \$ 5,132 | \$ 154 | \$ 39 | \$ 10 | \$ 534 | \$ 187 | \$ 21,316 |

| | Space Operations | Science Mission | Exploration Mission | Aeronautics Mission | Cross-Agency Mission | Education Mission | Office of Inspector General | American Recovery and Reinvestment Act | Construction and Environmental Compliance | Other | Total |
|--|------------------|-----------------|---------------------|---------------------|----------------------|-------------------|-----------------------------|--|---|---------------|------------------|
| Change in Obligated Balance | | | | | | | | | | | |
| Obligated Balance, Net, October 1 | \$ 1,713 | \$ 2,560 | \$ 1,258 | \$ 207 | \$ 1,042 | \$ 224 | \$ 6 | \$ 319 | \$ 302 | \$ 326 | \$ 7,957 |
| Obligations Incurred | 5,401 | 4,955 | 3,927 | 561 | 5,090 | 126 | 37 | 8 | 425 | 109 | 20,639 |
| Less: Gross Outlays | 5,058 | 4,693 | 3,431 | 502 | 4,912 | 161 | 39 | 281 | 257 | 301 | 19,635 |
| Less: Recoveries of Prior Year Unpaid Obligations | 50 | 58 | 42 | 6 | 41 | 3 | — | 8 | 10 | 39 | 257 |
| Change in Uncollected Customer Payments from Federal Sources | 7 | — | — | — | (93) | — | — | 17 | — | 40 | (29) |
| | \$ 2,013 | \$ 2,764 | \$ 1,712 | \$ 260 | \$ 1,086 | \$ 186 | \$ 4 | \$ 55 | \$ 460 | \$ 135 | \$ 8,675 |
| Obligated Balance, Net, End of Period | | | | | | | | | | | |
| Unpaid Obligations | \$ 2,018 | \$ 2,764 | \$ 1,712 | \$ 260 | \$ 1,919 | \$ 186 | \$ 4 | \$ 56 | \$ 460 | \$ 147 | \$ 9,526 |
| Less: Uncollected Customer Payments from Federal Sources | 5 | — | — | — | 833 | — | — | 1 | — | 12 | 851 |
| Total, Unpaid Obligated Balance, Net, End of Period | \$ 2,013 | \$ 2,764 | \$ 1,712 | \$ 260 | \$ 1,086 | \$ 186 | \$ 4 | \$ 55 | \$ 460 | \$ 135 | \$ 8,675 |
| Outlays | | | | | | | | | | | |
| Net Outlays: | | | | | | | | | | | |
| Gross Outlays | \$ 5,058 | \$ 4,693 | \$ 3,431 | \$ 502 | \$ 4,912 | \$ 161 | \$ 39 | \$ 281 | \$ 257 | \$ 301 | \$ 19,635 |
| Less: Offsetting Collections | 12 | — | — | — | 1,844 | — | 1 | 17 | 6 | 122 | 2,002 |
| Less: Distributed Offsetting Receipts | — | — | — | — | — | — | — | — | — | 16 | 16 |
| Net Outlays | \$ 5,046 | \$ 4,693 | \$ 3,431 | \$ 502 | \$ 3,068 | \$ 161 | \$ 38 | \$ 264 | \$ 251 | \$ 163 | \$ 17,617 |

National Aeronautics and Space Administration
 Required Supplementary Information
 Combining Schedule of Budgetary Resources
 For the Fiscal Year Ended September 30, 2010

| | Space Operations | Science Mission | Exploration Mission | Aeronautics Mission | Cross-Agency Mission | Education Mission | Office of Inspector General | American Recovery and Reinvestment Act | Construction and Environmental Compliance and Restoration | Other | Total |
|---|------------------|-----------------|---------------------|---------------------|----------------------|-------------------|-----------------------------|--|---|--------------|-----------------|
| Budgetary Resources | | | | | | | | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 91 | \$ 62 | \$ 47 | \$ 4 | \$ 291 | \$ 28 | \$ 2 | \$ 608 | \$ — | \$ 187 | \$ 1,320 |
| Recoveries of Prior Year Obligations | 63 | 84 | 61 | 7 | 45 | — | — | 6 | — | 64 | 330 |
| Budget Authority: | | | | | | | | | | | |
| Appropriation | 6,147 | 4,469 | 3,746 | 501 | 3,194 | 183 | 36 | — | 448 | 1 | 18,725 |
| Spending Authority from Offsetting Collections Earned | | | | | | | | | | | |
| Collected | 8 | — | — | — | 1,226 | — | 1 | 33 | 3 | 204 | 1,475 |
| Change in Receivable Federal Sources | (1) | — | — | — | (125) | — | — | (1) | — | (20) | (147) |
| Change in Unfilled Orders | | | | | | | | | | | |
| Advance Received | (7) | — | — | — | (46) | — | 1 | 1 | — | (36) | (87) |
| Without Advance from Federal Sources | (2) | — | — | — | 108 | — | — | (29) | — | (91) | (14) |
| Subtotal | 6,145 | 4,469 | 3,746 | 501 | 4,357 | 183 | 38 | 4 | 451 | 58 | 19,952 |
| Nonexpenditure Transfers, Net: | | | | | | | | | | | |
| Actual Transfers, Budget Authority | (5) | 28 | 31 | (4) | (52) | (2) | — | — | 4 | — | — |
| Actual Transfers, Unobligation Balances | 1 | — | — | — | — | — | — | — | — | (1) | — |
| Permanently Not Available | | | | | | | | | | | |
| Cancellations of Expired and No-year Accounts | — | — | — | — | — | — | (2) | — | — | (91) | (93) |
| Enacted Reductions | — | — | — | — | — | — | — | — | — | — | — |
| Total Budgetary Resources | \$6,295 | \$4,643 | \$3,885 | \$508 | \$4,641 | \$209 | \$38 | \$618 | \$455 | \$217 | \$21,509 |
| Status of Budgetary Resources | | | | | | | | | | | |
| Obligations Incurred: | | | | | | | | | | | |
| Direct: | \$6,139 | \$4,582 | \$3,740 | \$474 | \$3,220 | \$203 | \$35 | \$612 | \$369 | \$39 | \$19,413 |
| Reimbursable: | 2 | — | — | — | 1,398 | — | 1 | 4 | 1 | 75 | 1,481 |
| Subtotal | 6,141 | 4,582 | 3,740 | 474 | 4,618 | 203 | 36 | 616 | 370 | 114 | 20,894 |
| Unobligated Balance: | | | | | | | | | | | |
| Appropriated | 98 | 61 | 145 | 34 | 21 | 6 | 2 | 2 | 77 | 13 | 459 |
| Unobligated Balance Not Available | 56 | — | — | — | 2 | — | — | — | 8 | 90 | 156 |
| Total Status of Budgetary Resources | \$6,295 | \$4,643 | \$3,885 | \$508 | \$4,641 | \$209 | \$38 | \$618 | \$455 | \$217 | \$21,509 |

| | Space Operations | Science Mission | Exploration Mission | Aeronautics Mission | Cross-Agency Mission | Education Mission | Office of Inspector General | American Recovery and Reinvestment Act | Construction and Environmental Compliance and Restoration | Other | Total |
|--|------------------|-----------------|---------------------|---------------------|----------------------|-------------------|-----------------------------|--|---|---------------|------------------|
| Change in Obligated Balance | | | | | | | | | | | |
| Obligated Balance, Net, October 1 | \$ 1,433 | \$ 2,243 | \$ 1,108 | \$ 210 | \$ 880 | \$ 118 | \$ 6 | \$ 356 | \$ — | \$ 1,179 | \$ 7,533 |
| Obligations Incurred | 6,141 | 4,582 | 3,740 | 474 | 4,618 | 203 | 36 | 616 | 370 | 114 | 20,894 |
| Less: Gross Outlays | 5,801 | 4,181 | 3,530 | 471 | 4,428 | 96 | 35 | 677 | 68 | 1,014 | 20,301 |
| Less: Recoveries of Prior Year Unpaid Obligations | 63 | 84 | 61 | 7 | 45 | — | — | 6 | — | 64 | 330 |
| Change in Uncollected Customer Payments from Federal Sources | 3 | — | — | — | 17 | — | — | 30 | — | 111 | 161 |
| | \$ 1,713 | \$ 2,560 | \$ 1,257 | \$ 206 | \$ 1,042 | \$ 225 | \$ 7 | \$ 319 | \$ 302 | \$ 326 | \$ 7,957 |
| Obligated Balance, Net, End of Period | | | | | | | | | | | |
| Unpaid Obligations | \$ 1,725 | \$ 2,560 | \$ 1,257 | \$ 206 | \$ 1,782 | \$ 225 | \$ 7 | \$ 337 | \$ 302 | \$ 378 | \$ 8,779 |
| Less: Uncollected Customer Payments from Federal Sources | 12 | — | — | — | \$740 | — | — | 18 | — | 52 | 822 |
| Total, Unpaid Obligated Balance, Net, End of Period | \$ 1,713 | \$ 2,560 | \$ 1,257 | \$ 206 | \$ 1,042 | \$ 225 | \$ 7 | \$ 319 | \$ 302 | \$ 326 | \$ 7,957 |
| Outlays | | | | | | | | | | | |
| Net Outlays: | | | | | | | | | | | |
| Gross Outlays | \$ 5,801 | \$ 4,181 | \$ 3,530 | \$ 471 | \$ 4,428 | \$ 96 | \$ 35 | \$ 677 | \$ 68 | \$ 1,014 | \$ 20,301 |
| Less: Offsetting Collections | 1 | — | — | — | 1,180 | — | 2 | 34 | 3 | 168 | 1,388 |
| Less: Distributed Offsetting Receipts | — | — | — | — | — | — | — | — | — | 8 | 8 |
| Net Outlays | \$ 5,800 | \$ 4,181 | \$ 3,530 | \$ 471 | \$ 3,248 | \$ 96 | \$ 33 | \$ 643 | \$ 65 | \$ 838 | \$ 18,905 |

National Aeronautics and Space Administration
 Required Supplementary Information
 For the Fiscal Years 2011 and 2010

DEFERRED MAINTENANCE

NASA uses a Deferred Maintenance parametric estimating method (DM method) in order to conduct a consistent condition assessment of its facilities, buildings, and other structures (including heritage assets). This method measures NASA's current real property asset condition and documents real property deterioration. The DM method produces both a cost estimate of deferred maintenance, and a Facility Condition Index (FCI). Both measures are indicators of the overall condition of NASA's facilities. The facilities condition assessment methodology involves an independent, rapid visual assessment of nine different systems within each facility to include: structure, roof, exterior, interior finishes, HVAC, electrical, plumbing, conveyance, and program support equipment. The DM method is designed for application to a large population of facilities; results are not necessarily applicable for individual facilities or small populations of facilities. Under this methodology, NASA defines acceptable operating conditions in accordance with standards comparable to those used in private industry, and the aerospace industry.

There has been no significant change in our deferred maintenance estimate this year. The Agency-wide FCI, based on the ratings obtained during the condition assessment site visits, remains unchanged from the previous fiscal year. The FCI values for the majority of individual Centers and sites varied less than 0.5, validating the relative stability of the Centers and sites despite the continued aging and deterioration of older facilities. Evaluation of the facility conditions by building type (Real Property Classification Code/DM Category) indicates that the Agency continues to focus maintenance and repair on direct mission-related facilities. Higher condition ratings are reported for potable water facilities, launch, communication and tracking, and fuel facilities Agency-wide. Lower condition ratings occur for infrastructure, site related systems, and static test stands.

| Deferred Maintenance Method | 2011 | 2010 |
|------------------------------------|-------------|-------------|
| Facility Condition Index (FCI) | 3.7 | 3.6 |
| Target Facility Index | 3.8 | 3.8 |
| Deferred Maintenance Estimate | | |
| (Active and Inactive Dollars) | \$ 2,472 | \$ 2,553 |
| (In Millions of Dollars) | | |

Letter from the Inspector General on the Audit

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



November 15, 2011

TO: Charles F. Bolden, Jr.
Administrator

Elizabeth Robinson
Chief Financial Officer

FROM: Paul K. Martin 
Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration's
Fiscal Year 2011 Financial Statements (Report No. IG-12-004;
Assignment No. A-11-016-00)

The Office of Inspector General contracted with the independent public accounting firm PricewaterhouseCoopers LLP (PwC) to audit NASA's financial statements in accordance with the Government Accountability Office's *Government Auditing Standards* and the Office of Management and Budget's Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended.

The audit resulted in an unqualified opinion on NASA's fiscal year (FY) 2011 financial statements (Enclosure 1). An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. The results of the FY 2011 audit were a notable improvement over FY 2010, when the Agency received a qualified opinion due to the valuation of property, plant, and equipment and materials in prior years and the possible effects to the 2010 statements of net cost and changes in net position.

PwC also issued its reports on internal control and compliance with laws and regulations (Enclosures 2 and 3, respectively). For FY 2011, PwC identified two significant deficiencies related to (1) the environmental liability estimation process and (2) privileged user access controls and monitoring of the financial management system environment. During the audit, PwC identified no instances of significant noncompliance with applicable laws and regulations.

In fulfilling our responsibilities under the Chief Financial Officers Act of 1990, we monitored the progress of the audit, reviewed PwC's reports and related documentation, inquired of PwC's representatives, and ensured that PwC met contractual requirements. Our review was not intended to enable us to express, and we do not express, an opinion

on NASA's financial statements; conclusions about the effectiveness of internal controls over financial reporting; or compliance with certain laws and regulations, including, but not limited to, the Federal Financial Management Improvement Act of 1996.

PwC is responsible for each of the enclosed reports and the conclusions expressed therein. Our review, while still ongoing, disclosed no instances where PwC did not comply in all material respects with the Government Accountability Office's *Government Auditing Standards*.

Please contact us if you have any questions about the enclosed reports.

3 Enclosures

Report of the Independent Auditors



Report of Independent Auditors

To the Administrator and the Inspector General
of the National Aeronautics and Space Administration

We have audited the accompanying consolidated balance sheet of the National Aeronautics and Space Administration (NASA) as of September 30, 2011, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended. These financial statements are the responsibility of NASA's management. Our responsibility is to express an opinion on the September 30, 2011 financial statements based on our audit. The financial statements of NASA as of and for the year ended September 30, 2010, were audited by other auditors whose report dated November 15, 2010, expressed an unqualified opinion on the consolidated balance sheet and the combined statement of budgetary resources and a qualified opinion on the consolidated statements of net costs and changes in net position due to an inability to obtain sufficient evidence supporting depreciation, property, plant and equipment and operating materials and supplies (OM&S) and contained an explanatory paragraph regarding an election by NASA to change its method of accounting for OM&S from the consumption method to the purchases method.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NASA at September 30, 2011, and its consolidated net cost of operations and changes in net position, and the combined budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A, RSI, and RSSI. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of NASA taken as a whole. The Other Accompanying Information is presented for purposes of additional analysis and is not a required part of the consolidated or combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2011, on our consideration of NASA's internal control over financial reporting and a report dated November 15, 2011, on its compliance and other matters for the year ended September 30, 2011. The purpose of those reports is to describe the scope of our testing of 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 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 audit.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, slightly slanted style.

November 15, 2011

Report of the Independent Auditors on Internal Control



Report of Independent Auditors on Internal Control

To the Administrator and the Inspector General
of the National Aeronautics and Space Administration

We have audited the financial statements of the National Aeronautics and Space Administration (NASA) as of and for the year ended September 30, 2011 and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of NASA is responsible for maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the NASA's internal control over financial reporting 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 NASA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NASA's internal control over financial reporting.

We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in compliance with laws governing the use of budget authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, and other laws and regulations that could have a direct and material effect on the financial statements.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

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

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

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with governance. We identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These deficiencies are:

Environmental Liability Estimation Process

NASA has recorded a total Environmental Liability in the amount \$1,445 million within its balance sheet. NASA's management has invested resources to develop policies and procedures to accurately estimate and report this liability. The results of our testing have identified that improvements related to NASA's environmental liability policies or procedures are needed. Specifically, we noted the following:

1. Environmental Liability Policies and the Application of these Policies.

NASA calculates an environmental liability associated with the following sub-categories of projects/assets: 1) Restoration Projects, 2) Property, Plant, and Equipment (PP&E) - excluding Space Shuttle Assets, and 3) Space Shuttle Assets.

- **Inconsistencies in the application of the restoration project environmental liability policy:** NASA's key control in determining the appropriateness of the environmental liability associated with Restoration Projects (sub-category) is the joint review process. As stipulated within the restoration project environmental liability policy, a joint review is conducted annually to validate the environmental liability estimates. During our observation of the joint review process, we noted the process did not consistently identify errors in the application of the estimation policy which lead to an underestimation of the liability, which was subsequently corrected.
- **Lack of clarity related to the PP&E environmental liability policy and inconsistency in the application of the policy:** As it relates to the PP&E (sub-category), we noted instances where NASA has analyzed an environmental liability for specific assets included within its permitted facilities but has not provided a liability analysis for similar assets included within its non-permitted facilities. According to management, an assessment of potential clean-up costs is only required for assets held within facilities where a permit is required to operate the facility. However, there are times in which the local State, County, or City statutes, regulations and ordinances do not require operation permits, but potential clean-up liabilities could exist due to the requirements embedded in those statutes, regulations or ordinances. NASA has not estimated a liability for the non-permitted facilities.

During our review, we also noted that Restoration Project Managers (RPMs) and environmental staff used an operational definition for environmental clean-up costs which differs from the accounting definition set by the Federal Accounting Standards Advisory Board (FASAB). In addition, we noted differing applications of the liability requirements between proprietary and budgetary accounting, such as recording liabilities net of proceeds from asset disposition.



NASA was unable to provide evidence that the analysis supporting the Constellation Program's projected clean-up cost was complete. We also noted that the methodology used to develop the projected clean-up cost for the Constellation Program assets was different than that used for the Shuttle Program. NASA was unable to provide documentation to support the rationale for the differing methodologies.

3. Inappropriate Interpretation of Accounting Standards related to the Recording of Environmental Liabilities.

During our review of the environmental liability estimates prepared by NASA, we noted that management was excluding the funded portion of the liability from its financial statements. This treatment is inconsistent with related accounting standards and Treasury reporting requirements. For example, NASA has received \$43 million dollars in appropriated funding to perform work related to its restoration projects; however, this amount was initially excluded from the reported environmental liability. Subsequent to our testing, NASA updated the official books and records to include this amount within the liability estimate.

We also noted that NASA's environmental liability policy encourages estimators to offset expected losses against potential gains from the salvage value of assets or other estimated recoveries. This treatment is inconsistent with authoritative accounting literature.

Recommendations

We recommend that NASA:

- Further enhance the process and procedures performed during the joint review process. NASA should increase the level of due diligence performed during their Joint Review Process by developing specific programs/checklists that should be followed during this monitoring process. This will ensure that the focus of each review is consistent from project to project. In addition, we recommend NASA extend its joint review process to estimates related to PP&E and Space Exploration. The enhancement of the Joint Review Process will provide NASA with additional assurance related to the reasonableness of the estimates.
- Provide additional clarity regarding its PP&E environmental liability policy and develop a comprehensive Space Exploration liability policy. The PP&E policy should be clarified to provide guidance and procedures related to the estimation process for all sub-categories of PP&E. The Space Exploration liability policy should establish procedures to ensure the liability is complete and requirements to document the rationale for differences in methods used to calculate the liability between programs (e.g., Space Shuttle Program vs. Constellation Program). The policies should be in compliance with and reference appropriate accounting standards and other applicable reporting requirements.



- Ensure that the analyses supporting the estimates derived from the implementation of the estimation policies identify the data, factors, assumptions, and methods used to develop the estimates. NASA should also retain all relevant documentation that supports the analysis and related estimates. To the extent that NASA believes that the accounting standards allow for the establishment of a liability "threshold" for individual assets, this determination should be fully analyzed and documented. The documentation of this liability "threshold" should also include an analysis of the aggregation risk associated with the related classes of assets. Finally, NASA should ensure that this analysis is updated on a regular basis to address changes, in facts and circumstances.

Privileged User Access Controls and Monitoring of the SAP Environment

Our audit identified privileged access weaknesses and inadequate logging and monitoring that, when aggregated, increase the risk that unauthorized, undetected modifications could be made to NASA's financial data and systems. Our testing disclosed the following:

1. Two unlocked, Dialog SAP IDs had been assigned the critical SAP_ALL profile. This access allows broad, transactional access to the production environment, including, but not limited to, the ability to post accounting documents, create users, open the production environment for direct changes, and delete logs. Additionally, one of these Dialog SAP IDs had been assigned the SAP_NEW profile, which in combination with the SAP_ALL profile, granted extensive access to users. Persons assigned these access rights had the ability to perform broad, critical functions within SAP, including functions typically segregated.
2. Twenty-eight SAP users across the NASA Enterprise Applications Competency Center (NEACC) Security Access Management, Basis, Application Technical Support, Business Warehouse, and Competency Center teams were granted the ability to execute commands against the production environment without the enforcement of SAP authorization checks.
3. In addition, the same twenty-eight SAP users had been granted various development and debugging abilities on the production environment instance of SAP. Users with this access had the ability to deactivate and bypass authorization checks and change data dictionary objects.
4. Eight members of the NEACC Security Access Management Group had access to modify system settings within SAP, which was not commensurate with their job responsibilities. This access allowed them to unlock the production environment for direct changes, performance of development activities, and changes to tables, which bypassed established configuration management procedures.
5. Service and administrative accounts on the in-scope Oracle database and Solaris servers were shared among multiple users. The use of shared accounts by System Administrators prevents the timely assessment of accountability for actions taken within the system.



6. Application logs were maintained; however, periodic reviews of user activity were not performed and documented. Administrators relied on personnel to alert them to suspected malicious activity, rather than performing a regular review. In addition, privileged user activity was not audited within the supporting Oracle database.

Despite a mature Information Technology control environment, the combination of these weaknesses is significant enough to expose NASA's financial management system to multiple risks. As a result of the excessive and shared privileged access noted above, coupled with a lack of proactive, documented review of user activity, there is a risk that improper or inaccurate transactions of more than inconsequential amounts could be processed and recorded in the financial statements without timely detection.

Personnel at the NEACC have been proactive in researching these conditions, and in some instances, taking immediate corrective action. The NEACC has also responded with a longer-term remediation plan to address these weaknesses.

Recommendations

We recommend that NASA:

- Remove broad, privileged SAP profiles from unlocked, Dialog IDs in the production environment. Update the profiles to be commensurate with users' primary job responsibilities, as opposed to granting broad transactional access via SAP_ALL.

A custom emergency ID should be created with the privileged abilities required by the NEACC to perform required job responsibilities which do not result in a segregation of duties violation. This ID should be locked in the production environment when not in use, and those with the ability to change the password in the system should be adequately restricted. Procedures should be created, building on controls already in place, for requesting, approving, monitoring, and retaining documentation supporting the usage of this ID.

- Perform a review of privileged roles, access abilities, and authorization objects assigned to users to confirm the assignment is necessary and commensurate with users' documented job responsibilities. Processes should be developed to manage the administration of privileged access abilities and authorization objects if they are ever needed in the production environment, as well as to monitor the usage of that access when granted in the production environment.
- Perform a review to identify all service and administrative accounts that are shared among Oracle and Solaris administrators to confirm granted access is required. Unique accounts should be created for all users in the Oracle database and Solaris operating system, with activity on those accounts regularly monitored. If the creation of unique accounts is not feasible, the NEACC should restrict the shared access to only those users who require it on a regular basis. Processes should be developed to manage the



administration of this shared access when it is needed, as well as to monitor and document the usage of the shared access.

- Ensure that application logs are actively reviewed for unauthorized or malicious activity. Although NASA has policies in place, proactive reviews of the logs should be performed to detect and respond to suspicious activity. Due to the volume of application logs, NASA should perform a risk assessment isolating specific higher-risk activity to review for, and develop and implement a procedure to actively monitor logs for this activity.

Our consideration of internal control was for the limited purpose described in the second paragraph of this report and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We have discussed our findings and recommendations with NASA’s management. Management will provide a corrective action plan to address the findings identified in this report. We have not performed additional procedures to validate the corrective actions.

We did note other matters involving the internal control and its operation that we will communicate to NASA in a separate letter.

Status of Prior-Year Findings

In the report on the results of the FY 2010 audit of the NASA’s financial statements, two issued were raised relating to internal control. The chart below summarizes the current status of these prior year items:

| Issue Area | Control Deficiency Categorization | FY 2011 Status |
|---|-----------------------------------|---|
| Enhancements Needed for Controls over Property, Plant & Equipment Records Maintained by Contractors | Significant Deficiency | Closed |
| Enhancements Needed for Recognition of Environmental Remediation Costs | Significant Deficiency | Substantially remediated. However, new observations were noted during the current year audit reflected herein as a significant deficiency |



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

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November 15, 2011

Report of Independent Auditors on Compliance and Other Matters



Report of Independent Auditors on Compliance and Other Matters

To the Administrator and the Inspector General
of the National Aeronautics and Space Administration

We have audited the financial statements of the National Aeronautics and Space Administration (NASA) as of and for the year ended September 30, 2011 and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of NASA is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the compliance with laws and regulations including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04 and other laws and regulations, noncompliance with which could have a direct and material effect of the on the financial statements. Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether NASA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We limited our tests of compliance to the provisions of law and regulation cited in the second paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 and no instances of substantial noncompliance that are required to be reported under FFMIA.

The report is intended solely for the information and use of NASA's management, NASA's Office of Inspector General, OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, stylized font.

November 15, 2011

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Management's Response to Independent Auditors Report

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001



November 15, 2011

Reply to Attn of:

Office of the Chief Financial Officer

TO: Inspector General

FROM: Deputy Chief Financial Officer

SUBJECT: Management Response to Audit Report of Independent Auditors

I am pleased to accept your audit report on the Consolidated Financial Statements of the National Aeronautics and Space Administration (NASA) for FY 2011 and FY 2010. The Agency's efforts and achievements toward improved financial management are clearly reflected in the audit opinion. For the first time since 2002, NASA has received an unqualified opinion on its financial statements. The Agency continues to have no material weaknesses for the second consecutive year. Further, we are able to report that NASA continues to be substantially in compliance with the Federal Financial Management Improvement Act.

I am particularly gratified to note the resolution of the prior year significant deficiency in internal control related to legacy property, plant, and equipment. The resolution of this matter is a direct result of the commitment and efforts of the entire Agency. We are proud of the progress that NASA has made toward excellence in financial management.

I appreciate the efforts and leadership of NASA's Office of the Inspector General (OIG) and of the auditors under contract to the OIG to audit NASA's financial statements. Please convey my appreciation and thanks to your team for the professionalism and cooperation exhibited during this audit.

A handwritten signature in black ink that reads "Terry Bowie".

Terry Bowie