



DATE: **MAR 15 2001**

TO: Institute and Center Directors
Acting Deputy Director, NIH
Institute and Center Executive Officers
Institute and Center Budget Officers

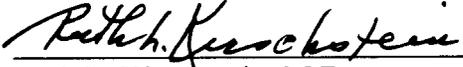
FROM: Acting Director, NIH
Deputy Director for Management, NIH

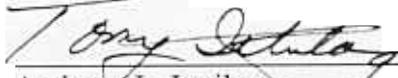
SUBJECT: FY 2000 Chief Financial Officer Act (CFO) and Government
Management Reform Act (GMRA) Audit

Attached are the results of our CFO/GMRA audit for FY 2000. We earned an unqualified opinion from our independent auditors, Ernst and Young, LLP on our financial statements. This is the second year in a row that we have earned an unqualified opinion and is a distinguished accomplishment.

The audit report identifies several internal control weaknesses that we will need to address. In this regard, we will be discussing with Executive Officers, Budget Officers, and others alternative approaches for tackling these weaknesses over the next several months.

If there are questions or comments on the audit, please call Steven Berkowitz on 496-9115 or e-mail him at sb29k@nih.gov.


Ruth L. Kirschstein, M.D.


Anthony L. Itteilag

Attachment

cc:
OD Senior Staff

NATIONAL INSTITUTES OF HEALTH

Audited Financial Statements

Year ended September 30, 2000

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MISSION AND ORGANIZATIONAL STRUCTURE

The National Institutes of Health's (NIH) mission is to uncover new knowledge about the prevention, detection, diagnosis, and treatment of disease and disability.

The NIH works toward this mission by conducting research in its own laboratories; supporting the research of non-federal scientists in universities, medical centers, hospitals, and research institutions throughout the country and abroad; helping to train research investigators; and fostering communication of medical information.

Medical innovation is one of the principal foundations on which America's past successes in improving healthcare have been built. It is where hope for the future resides. History provides abundant evidence that medical progress rarely occurs without the sustained pursuit of advances in basic and behavioral science. Through the conduct and support of medical research, the NIH seeks to expand fundamental knowledge about the nature and behavior of living systems; to improve and develop new strategies for the diagnosis, treatment, and prevention of disease; and to reduce the burdens of disease and disability.

The NIH invests the public's resources and support for medical science in three basic and interrelated ways. First and foremost, the NIH conducts and supports medical research. Second, it contributes to the development and training of the pool of scientific talent. And third, it participates in the support, construction, and maintenance of the laboratory facilities necessary for conducting cutting-edge research.

The NIH's long term goals encompass each of these important domains of agency activity:

- *Increase understanding of normal and abnormal biological functions and behavior.*
- *Improve prevention, diagnosis, and treatment of diseases and disabilities.*
- *Promote development of a talent base of well qualified, highly trained, and diverse investigators capable of yielding the scientific discoveries of the future.*
- *Secure facilities for research that are modern, efficient, and safe.*

Organizational Overview

The NIH is comprised of research Institutes and Centers (ICs, or “Institutes”) whose research activities extend from basic research that explores the fundamental workings of biological systems and behavior, to studies that examine disease and treatments in clinical settings, to prevention and to population-based analyses of health status and needs.

The NIH “visible” to most Americans encompasses the research institutes focused on diseases (e.g., cancer, diabetes), primary organ systems (e.g., heart, eye, kidney), or a stage of life (e.g., children, the aging). Yet, no less essential to the nation’s health are NIH programs that address overarching scientific needs and opportunities. Included here are such efforts as deciphering the human genome, understanding cellular and tissue biology and physiology, training investigators in relevant scientific fields, and developing the array of technologies dictated by the needs of cutting-edge research. All are scientific innovations that move into clinical practice and enhance the capabilities and quality of routine medical treatment.

The Extramural Research Community. More than \$8 out of every \$10 dollars appropriated to NIH flows out to the scientific community at large -- of which the lion’s share supports individual scientists. This “extramural” system is premised on *independence*, embodied in “investigator- initiated” research; on *self-governance*, embodied in peer review of scientists by scientists as the primary basis for judging the merits of research proposals and awarding funds; and on the powerful incentive of *competition* among the most highly trained scientists in the world. The extramural research community comprises scientists affiliated with universities, hospitals, and other research facilities located in all 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, and points abroad.

Research at NIH’s Intramural Laboratories. A much smaller fraction of the funds -- approximately 11 percent of the budget -- supports a core program of basic and clinical research activities administered and staffed by NIH’s own physicians and scientists. This in-house, or intramural, research program includes the NIH Clinical Center and other resources that provide scientific, clinical, and educational benefits to the citizens of the U.S. and the world.

The NIH undertakes its mission through activities in three Core Program Areas: 1) *Research*, 2) *Research Training and Career Development*, and 3) *Research Facilities*.

The *Research Program* represents all aspects of the medical research continuum, including basic research, which may be disease-oriented; observational and population-based research; behavioral research; clinical research, including research to understand both normal health and disease states, to move laboratory findings into medical applications, to assess new treatments or to compare different treatment approaches; and health services research. In addition, the timely dissemination of medical and scientific information is a key component of the Program, as is the expeditious transfer of the results of its medical research to provide benefits to human health.

The *Research Training and Career Development Program* addresses the need for creative and well capable personnel to conduct medical research. The primary goal of the support that NIH provides for graduate training and career development is to produce new, highly trained investigators who are likely to perform research that will benefit the nation's health. Our ability to maintain the momentum of recent scientific progress and our international leadership in medical research depends upon the continued development of new, highly trained investigators.

The *Research Facilities Program* focuses on ensuring that the scientists we support have adequate facilities in which to conduct their work. In fact, many of the advances in medical research that are leading to more effective treatments for illnesses reflect stunning innovations in sophisticated, but often costly, research technologies that are far beyond the capacity of all but a handful of institutions to purchase, construct, or maintain. NIH recognizes that ensuring broad access to these research resources creates efficiencies that make the research dollar go farther, while providing critical resources to all scientists. Often, access to the needed tools by the largest possible number of scientists determines the pace of research on many devastating illnesses.

Throughout, NIH's Core Programs are aggregates of the many specific programs and activities underway across the agency. This aggregation approach is implemented due to the cross-cutting nature of disease and scientific discovery. By aggregating activities that are intrinsically collaborative and complementary, NIH neither omits nor minimizes the significance of any particular activity that contributes to a major function or operation for the agency as a whole.

Research

NIH's research Institutes and Centers (ICs) maintain extensive medical research programs on numerous topics in their areas of focus. In addition to providing grant support to the extramural research community through a competitive proposals process, most of the ICs also conduct their own research in NIH's intramural laboratories. Each year, NIH receives proposals to initiate new research from the most promising and productive scientists at universities and research centers throughout the country - and, where special opportunities exist, from scientists abroad.

The NIH identifies goals and a budget strategy annually to maximize support for basic biomedical research, to promote health, and to better understand the biological and behavioral basis for disease to improve prevention and treatment of human disorders.

The nation's investment in medical research has a long history of success. In recent years, NIH has been able to report annually on advances that represent outstanding achievements in science. Typically, these achievements are the result of past investments made with the belief that medical research will lead to improvements in the nation's health. The federal effort devoted to medical research, combined with private sector efforts, can and does, improve the length and quality of our lives.

Scientific research is best viewed as an enterprise for the long run – to account for the intrinsic difficulties and uncertainties of probing the unknown. Discoveries and significant advances typically emerge in an uneven way over time and are, as a practical matter, largely impossible to predict in advance. Once in hand, however, progress can often proceed rapidly. Accordingly, NIH's performance goals for the Research Program focus on broad, long-run achievement in key areas that reflect the agency's mission.

Research Program			
Budget (Dollars in thousands)	FY 1999 Actual Cost	FY 2000 Actual Cost	Percent Change
	\$13.580 billion	\$14.690 billion	8.1 percent Increase
Major Functional Areas	<p>Research -- NIH's ongoing scientific enterprise. This includes research conducted through grant awards and contracts to individual investigators and organizations in the Extramural Research community. It also includes research conducted at NIH's Intramural labs. The intended long-run outcomes of all these activities are increased understanding of normal and abnormal biological functions and behavior and improved prevention, diagnosis, and treatment of diseases and disabilities.</p>		
	<p>Communication of Results -- Communicate scientific results and health information to the medical research community, health care providers, patients, and the general public.</p>		
	<p>Technology Transfer -- Promote the efficient transfer of the new technology forthcoming from NIH research to the private sector to facilitate the development of new drugs and other products of benefit to human health.</p>		
	<p>Research Leadership and Administration</p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>Priority setting</i>—implementing decision making mechanisms and policies that ensure NIH research is responsive to emerging health needs, scientific opportunities, and new technologies. <input type="checkbox"/> <i>Grants administration and peer review</i>—maintaining effective and efficient grants administration and a high quality of peer review to ensure the most meritorious research projects are considered for funding. <input type="checkbox"/> <i>Agency management and administrative support</i>—ensuring that management and administrative functions necessary to support the agency's mission are carried out effectively and efficiently. 		

Research Training and Career Development Program

The Research Training and Career Development Program addresses the NIH's major, long-term goal to "promote the development of a suitable talent base of well qualified, highly trained, and diverse investigators capable of yielding the scientific discoveries of the future."

To achieve this long-term outcome, NIH provides training support through National Research Service Award (NRSA) and other Career Development Awards programs and undertakes outreach activities to encourage individuals' interest in scientific careers. These programs are designed to increase our ability to attract and retain the best and brightest minds in biomedical research and to develop a corps of well-trained, highly skilled individuals who are ready to "hit the road running" as post-doctoral researchers and principal investigators. NIH's training and career development programs are also designed to enhance the diversity of the biomedical research labor force.

The NRSA training programs teach pre- and post-doctoral trainees how to conduct innovative, high-quality science -- including how to choose problems, choose model systems, develop logical hypotheses, design experiments, and conduct research with the highest ethical standards. The multi-disciplinary approach used helps trainees recognize the connections among different fields that aid a scientist in selecting the best approach to a research problem. Career development programs ensure that the NIH can recruit and retain clinicians in order to advance medical knowledge and public health.

Research Training and Career Development Program			
Budget (Dollars in thousands)	FY 1999 Actual Costs	FY 2000 Actual Costs	Percent Change
	\$820 million	\$871 million	6.2 percent increase
Major Functional Area	Training Support and Outreach -- Enhance training programs at the predoctoral, postdoctoral, and early career developmental levels to ensure a continuing supply of capable individuals in areas of National need; and encourage participants to pursue research careers and foster the recruitment and retention of under represented groups into careers as researchers.		

Research Facilities Program

The Research Facilities Program addresses NIH's long-term goal to "secure facilities for research that are modern, efficient and safe." NIH's activities and resources in this Core Program area are directed along two principal lines: *Intramural Modernization and Improvements* and *Extramural Assistance*.

Intramural Modernization and Improvements -- NIH occupies federally-owned facilities, which must keep pace with the demands of rapidly changing technologies and priorities in medical and behavioral research. In addition to the buildings located on the main NIH campus in Bethesda, Maryland and the National Institute of Environmental Health Science (NIEHS) campus in Research Triangle Park, North Carolina, the NIH maintains several off-campus field stations, including the NIH Animal Center in Poolesville, Maryland; the Frederick Cancer Research and Development Center at Fort Detrick in Frederick, Maryland; the Gerontology Research Center in Baltimore, Maryland; the Rocky Mountain Laboratory in Hamilton, Montana, and New Iberia, Louisiana. The original construction of these buildings and facilities spans a period of more than 60 years, dating back to the June 1936 legislation which authorized Building 1 on the Bethesda campus.

Facilities revitalization goals are established through a process which annually evaluates building and facility program needs. This effort culminates in the NIH Buildings and Space Plan, the Agency Capital Plan, and a Five Year Development Program. Other tools used to plan, program, and budget for capital assets include: facility assessments and surveys, engineering studies, technologically driven initiatives and advancements, changes in regulatory requirements, and the recommendations of the approved NIH Facilities Master Plan.

The Buildings and Facilities program (B&F) is composed of five major areas: Essential Safety and Health Improvements, Repair and Improvements, New Construction, Renovations, and Building Equipment/System Upgrades. The focus of the B&F is to provide facilities which are in compliance with applicable safety, accreditation, and other regulatory requirements; efficient in terms of indoor and outdoor environment and energy consumption; and effective in meeting research needs.

Extramural Assistance -- NIH is authorized under the Public Health Service Act to "make grants to public and non-profit private entities to expand, remodel, renovate or alter existing research facilities or construct new research facilities" for medical and behavioral research and research training. Such grants to extramural research facilities are awarded competitively, with grantee institutions required to obtain matching funds for the specific project awarded. The NIH collaborates with the National Science Foundation to assess the condition of existing facilities and identify needs for new and refurbished research facilities nationwide. These studies provide the major source of objective data for national research infrastructure policy and planning needs. When particular needs are identified, the NIH offers competitive funding opportunities. This support encompasses "bricks & mortar" modernization and replacement of existing research facilities -- all of which result in new capabilities that can open areas of innovative research activity.

Research Facilities Program			
Budget (Dollars in thousands)	FY 1999 Actual Costs	FY 2000 Actual Costs	Percent Change
	\$201 million	\$187 million	6.9 percent decrease
Major Functional Areas	Intramural Modernization and Improvements – Support the construction, renovation, and maintenance of NIH research facilities located on the Bethesda campus and at off-campus field stations to enable NIH intramural researchers to continue to conduct state-of-the-art medical research.		
	Extramural Assistance -- Assist in the construction and modernization of non-federal facilities at academic institutions and other centers of research excellence to enhance their ability to begin new and continue to conduct high-quality research.		

Collaboration with Other Federal Agencies

NIH conducts research in partnerships with other federal agencies, in areas of mutual interest or where the benefits from cooperation are strong. These collaborative endeavors often involve the NIH's sister agencies in HHS, such as the Centers for Disease Control and Prevention (CDC) and the AHRQ and other agencies such as the Department of Energy (DOE) and the National Aeronautics & Space Administration (NASA).

A sampling of NIH's diverse research collaborations with other federal agencies is as follows:

- *Human Genome Project.* NIH is currently working with the Department of Energy (and with other international collaborators) on the major effort to sequence the large and complex human genome. This endeavor is widely regarded as the single most important project currently in biology and biomedical science.
- *DNA Polymorphism Discovery Resource.* In one of numerous related studies, NIH worked recently with CDC and several independent scientists to assemble DNA samples from several hundred U.S. residents with ancestry from all the major regions of the world. This material will provide a resource of immense value for identifying human genetic variations, through which other studies can seek to relate to health and disease.

- *National Emphysema Treatment Trial.* NIH is collaborating with the Health Care Financing Administration (HCFA) and the AHRQ in a multi-center clinical trial designed to determine the role, safety, and effectiveness of bilateral lung volume reduction surgery in the treatment of emphysema.
- *Managing Pfiesteria and other harmful algal blooms.* In 1997, NIH worked collaboratively with a number of major federal agencies – National Oceanic and Atmospheric Administration (NOAA), Environmental Protection Agency (EPA), CDC, U.S. Department of Agriculture (USDA), Department of the Interior (DOI), and Food and Drug Administration (FDA) -- to develop a coordinated research strategy to identify ways to manage the health and environmental threats associated with *Pfiesteria* and other harmful algal blooms.

Relationships with Private Industry

The NIH also works with private industry in a number of ways, where there are opportunities to further NIH's research mission and to facilitate the flow of new biomedical knowledge and technologies to the private sector for further development and commercialization.

Among the various kinds of relationships possible, direct collaboration on research projects -- such as in the areas of vaccines, medical imaging, or other diagnostic tools -- is one important approach. Another is NIH's substantial efforts to facilitate the transfer of publicly funded research findings and technologies to the private sector. Additionally, NIH undertakes clinical trials on new drugs and therapies that may have considerable commercial interest to the private sector.

Some examples of these relationships with the private sector include:

- *Vaccine research and development.* Most currently available vaccines, as well as those in the development pipeline, have resulted from collaborations between partners in the public and private sector, including federal and state governments, small and large corporations, academic research institutions and non-governmental organizations.
- *Technology Transfer through Cooperative Research and Development Agreements (CRADAs).* CRADAs are one major technology transfer mechanism used by NIH to enable private companies to work collaboratively with federal laboratory scientists and technologists in activities with the promise of yielding new technologies. (The CRADA mechanism was established by the Congress in 1986.)

- *Clinical Trials.* For example, NIH conducted a Phase I/II trial of recombinant methionyl human stem cell factor in patients diagnosed with acquired aplastic anemia. This trial was sponsored by Amgen, Inc., the private industry producer of the recombinant methionyl human stem cell factor.

Operations and Broad Strategy

NIH's mission to advance medical knowledge and sustain the nation's medical research capacity is accomplished by sustained federal stewardship. It is achieved through a number of fundamental principles that underlie NIH's broad planning and management of its programs and resources. These principles comprise the basic context in which NIH's goal setting and strategic planning operate.

□ ***Provide scientific leadership and establish research priorities.*** Establishing research priorities is essential to ensure that science meets national public health needs and efficiently uses limited resources. The NIH uses a multi-level system to establish and review research priorities. The NIH Director, in collaboration with IC directors and their respective advisory councils and boards and the biomedical research community, guides the priority-setting process. Additional input is sought from the Department of Health and Human Services (DHHS), Congress, and the public. Reflecting the research priorities identified through this process, ICs examine research initiatives and public health needs to ensure that the NIH is committing federal resources to projects and programs that will achieve the greatest yield from the nation's medical research investment.

Public health need and scientific opportunity are the primary drivers in the allocation of resources. In general, the NIH sponsors research that addresses public health needs – to find ways to prevent, treat, or cure disease and to minimize pain and suffering. But public health need alone is not enough; there must also be some real opportunity for success.

How do we identify areas of increased scientific opportunity? New knowledge comes from the pursuit of answers to new questions. The rate-limiting step in the generation of new knowledge is not the number of experiments conducted, but rather the number of new hypotheses or questions. When an arena of research is enjoying an exponential increase in the number of new questions, it is, indeed, an area of scientific opportunity. New questions emerge as a result of several converging factors, including the creativity of individual investigators, the emergence of new methods and tools that allow previously unanswered questions to be addressed, and what is already known about a problem. It is imperative that the NIH capitalize by investing funds in areas of scientific opportunity.

□ ***Fund the best research.*** Research Project Grants (RPGs) are the core mechanism for NIH support for the individual investigator. Other mechanisms include Program Project Grants, which support multi-disciplinary projects conducted by several collaborating investigators, and Center Grants, which are used to fund multi-disciplinary programs of medical research. Research proposals are submitted to the NIH by scientists working at universities, medical, dental, nursing and pharmacy schools, schools of public health, non-profit research foundations, and private industry. NIH support for a project includes the salaries of the scientists and technicians; the cost of equipment such as lasers or computers; the cost of supplies such as chemicals and test tubes; the cost of procedures conducted with research subjects; and the indirect costs associated with doing research, such as maintenance of buildings, electricity, library services, and cost of administrative support. Part of the NIH budget is also spent on research and development contracts which are awarded to non-profit and commercial organizations for work requested and overseen by the NIH.

The NIH funds are awarded through a highly competitive process to the most promising and productive scientists. Extramural research proposals are first evaluated by expert scientific peer review panels composed of non-NIH scientists who are among the most knowledgeable and respected in their fields. The proposals are then reviewed by independent advisory councils that include members of the lay public. This two-tiered independent review system is critical to ensuring that NIH funds the best research proposals.

□ ***Conduct leading-edge research in NIH laboratories.*** The NIH also conducts basic and clinical research in its own (intramural) laboratories. Projects are selected on the basis of scientific merit and public health need. Each institute maintains a Board of Scientific Counselors, composed of external experts, that reviews the intramural programs and makes recommendations to the Institute Director. The intramural program enables scientists to apply the results of laboratory research to patient care and to seek answers in the laboratory to questions that arise in the clinical setting. This national resource permits the NIH to respond rapidly to critical health problems and emergencies and to take advantage of emerging opportunities.

□ ***Effectively disseminate scientific results and research-based health information.*** The NIH develops and disseminates informational materials to individuals and groups, including medical and scientific organizations, industry, the media, and volunteer and patient organizations. Information dissemination efforts have expedited the translation of NIH's scientific advances and technologies into important diagnostic, preventive, and therapeutic products. In addition, they have brought about major health-enhancing changes in public attitudes and behaviors, such as reduction of smoking and better control of high blood pressure and high cholesterol levels. To effectively reach diverse audiences, whose knowledge of science and health differ, the NIH disseminates information ranging from highly technical research advances to the steps individuals can take to improve their own health.

The NIH disseminates information on scientific findings and technologies to scientific and other health professionals through various avenues: scientific publications, workshops and symposia, scientific meetings, consensus development conferences, press releases, special physician education programs, and clinical alerts concerning immediate health and safety issues. NIH also provides access to information about scientific articles, NIH research grants, clinical trials and treatment through extensive electronic databases.

To respond to the public, Congress, and the media, NIH employs information offices, clearinghouses, electronic databases, Internet-based information services, public education programs, publications and press releases, as well as direct responses by letter and telephone. These provide information regarding participation in research protocols; the best current information on disease prevention and health promotion, diagnosis, and treatment of specific diseases and disorders; information about ongoing research; and referrals to other sources of information.

□ ***Facilitate the development of health-related products through technology transfer.***
The NIH has a statutory mandate to transfer new biomedical technologies to the private sector for further development and commercialization. NIH's technology transfer programs ensure that the public investment in NIH research leads rapidly to beneficial health-related products, including preventives, diagnostics, therapeutics, and vaccines.

Many NIH research results are converted into commercial medical products, typically through the publicly available knowledge base created by NIH-supported research. The public also benefits from NIH technology transfer activities, including Cooperative Research and Development Agreements (CRADAs) with the private sector and the licensing to industry of intellectual property rights arising out of CRADAs and other NIH research. Virtually all NIH licenses negotiated with industry are royalty-bearing.

□ ***Ensure a continuing supply of well-trained laboratory and clinical investigators.***
Whereas supporting research is essential, it is equally important to ensure the availability of well-trained investigators who reflect our nation's diversity and who have specialized knowledge, methodological expertise, and creativity. The NIH's research training grant portfolio covers all the career stages that are key to the recruitment, training, and retention of productive medical researchers.

One of the goals of research training is to teach pre- and post-doctoral students how to conduct innovative, high-quality science, including how to identify problems, develop hypotheses, design experiments, choose model systems, and see connections among different fields that allow a scientist to make quantum leaps in understanding a problem. Mentors are a critical training resource, serving as role models and providing guidance that ensures trainees develop into successful investigators.

□ ***Sustain the nation's research facilities.*** The NIH must continually support the development, maintenance, and renewal of physical resources that are vital to the rapid pace of scientific discovery. The past achievements of medical research have required access to state-of-the-art laboratories. Up-to-date and safe research facilities are essential to assuring continued progress in the medical sciences. To support intramural research, NIH constructs new facilities and renovates existing ones to meet the ever-changing needs of biomedical research. The NIH also provides support to extramural grantees through research facilities construction grants designed to assist in the construction and modernization of non-federal research facilities.

□ ***Collaborate and coordinate with others.*** The NIH collaborates and coordinates on an ongoing basis with other federal agencies and research organizations where research interests intersect and when joint efforts will enhance the individual activities of each entity. Medical research benefits from multiple perspectives being brought to bear on a particular problem. Collaborative efforts bring diverse domains of expertise together and can facilitate a more rapid response to emerging opportunities. In addition, collaborative efforts work to produce the best possible science while making the most economical use of the resources available.

These collaborative endeavors frequently involve the NIH's sister agencies in DHHS, including the Food and Drug Administration (FDA), Centers for Disease Control and Prevention (CDC) and the Agency for Healthcare Research and Quality (AHRQ). Nonetheless, the full scope of the NIH's collaborative activities -- both in the past and those contemplated for the future -- is far wider, including many other federal agencies, government bodies, non-governmental organizations, and industry.

Results of Operations

The NIH received an increase of approximately 14 percent in its budget authority from congressional appropriations for FY 2000 compared with FY 1999. A provision of the Labor, HHS, and Education FY 2000 appropriation act required that the NIH delay obligating almost \$3 billion of its appropriation until late September 2000. This provision was eventually repealed in mid-July 2000, but by then the process was already in place to delay the obligation of almost \$3 billion of NIH resources. The NIH obligated these resources in late FY 2000. These late obligations resulted in the net cost of operations increasing by only 7.8 percent.

The net cost of NIH operations for FY 2000 was \$15.748 billion; of this amount, \$14.690 billion was for the Research Program, \$871 million was for the Training and Career Development Program, and \$187 million was for the Facilities Program.

The net cost for the NIH Research Program increased by 8.1 percent from \$13.580 billion to \$14.690 billion. The net cost for the NIH Training and Career Development Program increased by 6.2 percent from \$820 million to \$871 million. The net cost for the NIH Facilities program decreased 6.9 percent from \$201 million to \$187 million, representing the completion of certain construction projects during FY 2000.

To further the three major programs the NIH supports, during fiscal year 2000, the NIH funded 32,184 research project grants, 951 research centers, 15,830 full time training positions, 2,898 research career awards, and 1,219 research contracts. In addition, the NIH employs staff that conducts research in NIH laboratories, collaborate and oversee extramural research portfolios, review grant and contract applications and conduct stewardship over NIH resources.

The following table compares the number of grants and contracts that NIH funded in FYs 1999 and 2000:

ITEM	FY 1999 Actual	FY 2000 Actual
Research Project Grants	30,233	32,184
Research Centers	909	951
Full-Time Training Positions	15,768	15,830
Research Career Awards	2,591	2,898
Research Contracts	1,159	1,219

By far the largest NIH asset is its fund balance with the U.S. Treasury. This balance of \$16.574 billion represents the amount of resources that has not been disbursed to grantees, contractors, research fellows, intramural scientists, or other NIH employees as of September 30, 2000. The NIH fund balance with the U.S. Treasury increased almost 16.5 percent over FY 1999. This increase is due to the late obligations discussed previously.

Most NIH grantees receive funds using a letter of credit mechanism through the Department of Health and Human Services Payment Management System (PMS). The NIH advances funds to the PMS monthly based on estimated grantee drawdowns of cash to meet grantee expenses. Since the NIH made a large number of letter of credit grant and contract awards late in the fourth quarter of FY 2000, these awards did not result in cash advances to the PMS.

The NIH provides research goods and services on a reimbursable basis to other federal government agencies. As of September 30, 2000, the amount due NIH from these agencies was approximately \$109.7 million. The NIH's property, plant, and equipment include both real and personal property in facilities and research laboratories located in Maryland, North Carolina, Montana, and Arizona. The historic cost less accumulated depreciation of these assets total \$976.2 million.

As of September 30, 2000, the PMS had advanced to grantees almost \$863 million more than we had advanced to PMS, thus we have a accrued grant liability of \$863 million.

The NIH Business System

The NIH has launched a project known as the NIH Business System (NBS) that will replace the existing administrative and management systems used by NIH staff. The NBS is an NIH-wide effort that is organizationally located within the Office of the Deputy Director for Management, NIH.

During Fiscal Year 1998, the NIH conducted a preliminary assessment of the existing Administrative DataBase (ADB) and identified significant improvement opportunities. Part of the evaluation included consideration of commercial off-the-shelf software for future system development. The final report on this activity recognized that, while the ADB has supported the scientific enterprise superbly for the past two decades, it has been overtaken by advances in technology. The report proposed that the ADB be replaced as quickly as possible by a new system, since named the NIH Business System, that can provide new and improved support to the NIH. The report further suggested that there is a rich competitive environment among several software vendors who have products that appear to meet many of the requirements of an NIH Business System. Use of such software would allow for the implementation of best practices, facilitate the replacement process, and simplify future software maintenance. On the other hand, such software would not be tailored specifically to the NIH, as is the ADB, and might require NIH to modify some business practices.

Subsequently, in the fall of 1999, the NIH began a feasibility study, which analyzed various technology options for an NBS to facilitate the achievement of the NIH's business goals and objectives.

The NIH decided to replace the ADB with Enterprise Resource Planning software and has awarded a contract to a software company to provide the necessary off-the-shelf software. The scope of the NBS includes the six business or "functional" areas currently included in the ADB:

- Financial Management
- Property Management
- Accounts Payable (Commercial Accounts)
- Acquisition/Supply Management
- Service and Supply Funds Operations
- Travel Management

The overall objective of the NBS is to enable administrative/scientific support that is cost effective, provides more accurate and timely information, and facilitates the scientific mission of the NIH.

NIH SECURITY PROGRAM

The NIH security program protects the confidentiality, integrity, and availability of networks and information systems in NIH's ICs. The NIH Incident Response Team (IRT) serves as the focal point for computer security incidents in NIH on a 24x7 basis. The IRT identifies computer security incidents, characterizes the nature and severity of incidents, and provides immediate diagnostic and corrective actions when appropriate. The IRT works with Information Systems Security Officers (ISSOs), who serve as the focal points for security policy within ICs. Automated tools used by the IRT include:

- **Scanning tools.** These tools assess the security of hosts connected to the NIH network (NIHnet) by searching for vulnerabilities that hackers use to gain unauthorized access to systems. The IRT conducts IC-wide scans approximately twice a year, and streamlined NIH-wide scans monthly to detect common vulnerabilities that hackers have recently exploited.
- **Intrusion detection software.** This identifies specific attacks levied on NIH systems by monitoring network traffic 24x7 for intrusion signatures and identifying which systems or data may have been attacked.
- **Firewalls.** The IRT uses the NIH firewall to block specific viruses, incident types, and known hacker IP addresses. Some ICs also have their own firewalls that are customized according to their security requirements.
- **Anti-virus software.** NIH uses virus-scanning software to detect and remove viruses at the NIH firewall, the Microsoft Exchange e-mail server, and servers and desktop workstations.

The NIH security program also is responsible for the following activities:

- Administering an NIH-wide IT security awareness training program that provides and develops specialized IC awareness training and support.
- Coordinating the development of System Security Plans and Risk Assessments.
- Developing security policies and guidelines.
- Performing audits of computer account deregistration process to ensure that accounts are being discontinued for unauthorized users who leave NIH or transfer between ICs.
- Maintaining inventories of the following IT assets:

- 404 applications,
- 2141 Unix systems,
- 23,000 desktop systems,
- 271 building facilities,
- 4,565 network components,
- Telecommunications systems in 26 ICs, and
- Biomedical equipment belonging to nearly 1500 Principal Investigators.

- Physical Security – NIH enforces physical security procedures to protect systems resources located at the NIH Computer Center from access by unauthorized individuals. Control over access to the NIH Computer Center is maintained through the following:

An agreement with the Division of Public Safety, whereby the Chief of the Systems Operations Management Section (SOMS) exercises sole approval authority over all computer room cardkey access privileges other than for fire, police, and emergency rescue personnel;

The ability to generate reports locally indicating all holders of access cardkeys to the computer room. SOMS reviews reports weekly and corrects any errors that are found;

Center for Information Technology (CIT) Laboratory and Branch Chiefs' identification, justification, and annual certification of employees whose job requires that they have cardkey access;

Human Resources reviews the list of authorized cardkey personnel against the list of active CIT employees to identify individuals no longer working in CIT;

Requiring others, such as equipment repair people, who must have unescorted access to the computer room to obtain a fading badge from SOMS; and

Requiring everyone else to be accompanied by a person authorized for unescorted access to the computer room and requiring them to display an "Escort Required" badge.

- Disaster Recovery Plans – The CIT Disaster Recovery Program is an ongoing effort to minimize the impact of a disaster that would interrupt the functional capabilities (facilities and services) of the organization. CIT maintains a Disaster Recovery Plan that contains sensitive information necessary to restore the operational functions of the designated critical applications, including the resources that each application will need in the event of a disaster. CIT works with the program managers and technical leaders of critical applications to proactively develop and maintain their disaster recovery plans. CIT defines a disaster to be any unplanned event or problem that disrupts the NIH Computer Center from providing services and functions that are necessary to the operation of the designated critical applications for a period of 72 hours or longer.
- Contingency Plans - The NIHnet Backbone Contingency Plan provides a plan for preparedness in the event of an incident or disaster on the NIHnet Backbone that could potentially impact critical mission and business functions. NIH also conducts system contingency plans to provide the procedures to be followed to ensure the systems continue to be processed in the event of unanticipated system failures.

Summary of FY 2000 Performance Goals

Research

Goal: Develop critical genomic resources, including the DNA sequences of the human genome and the genomes of important model organisms and disease-causing microorganisms.

FY 2000 Targets:

1. Worldwide effort completes "working draft" of human genome sequence (90% complete, 99% accurate). U.S. contributes two-thirds of that amount, and NIH contributes 85% of U.S. total.
2. Finish the sequence of at least one human chromosome.
3. Complete sequence of the genome of *Drosophila melanogaster* (excluding heterochromatin).

FY 2000 Accomplishments:

1. The Human Genome Project public consortium reached a historic milestone in FY 2000 by completing a "working draft" of the sequence of the human genome (88% complete, 99.9% accurate). The U.S. contributed 67% of the working draft sequence; 87% of the U.S. total, by NIH.
2. The Human Genome Project public consortium completed the "finished" (99.99% accurate) sequence of two human chromosomes – chromosome 21 and chromosome 22 – during FY 2000.
3. During FY 2000, a consortium of publicly funded scientists, in collaboration with a private company (Celera Genomics), reported a substantially complete genome sequence of the fruit fly (*Drosophila melanogaster*).

Communication of Results

Goal: Establish a Clinical Trials Database, as required by the FDA Modernization Act.

FY 2000 targets:

1. Expand the Clinical Trials Database to include trials from other federal agencies and the private sector.
2. Develop options for implementation of toll-free telephone access to information in the Clinical Trials Database.

FY 2000 Accomplishments:

- 1 The Clinical Trials Database became available to the public on February 29, 2000. At launch, it contained approximately 4,000 trials. As of November 2000, the database contains more than 5,000 clinical trials at more than 47,000 locations nation-wide. The majority of the trials presently listed in the database are NIH-supported. However, the database does include some 800 cancer and HIV/AIDS trials supported by industry and other federal agencies. Of these, approximately 700 are industry supported and 100 are supported by other federal agencies.
2. In April 2000, the NIH awarded a contract to Aspen Systems Corporation to conduct an implementation study regarding the creation of the toll-free telephone service for disseminating clinical trials database information. The purpose of the study was to define the primary operating strategies for the service and the associated characteristics and costs, and to explore potential options for enhancing the service offered. By the end of FY 2000, the contractor completed a literature review, interviews with representatives of NIH Institutes and Centers, and conducted market research with consumers and health professionals.

Technology Transfer

Goal: Enhance outreach to commercial entities.

FY 2000 Targets

1. Increase in the number of Employee Invention Reports (EIRs) by 5% or more over the FY 1999 level.
2. Increase the number of License Agreements executed in FY 2000 by 3% over the FY 1999 level.
3. Increase the number of executed CRADAs by 3% over the level in FY 1999.

FY 2000 Accomplishments:

There were 330 EIRs in FY 2000, a 12% increase over the FY 1999 figure.

2. 188 License Agreements were executed in FY 2000, a decrease of 8% compared to the FY 1999 level.
3. 34 new CRADA agreements were established in FY 2000, a decrease of 14% compared to the FY 1999 level.

Grants Administration and Peer Review

Goal: Improve Electronic Research Administration (ERA) technology and enhance communication with the extramural community.

FY 2000 Targets

1. Full deployment of key ERA business process modules.
2. Implement electronic progress reporting with all 65 newly "on-line" institutions participating in the FDP.
3. Begin pilot testing of progress reporting for multi-project mechanisms.

FY 2000 Accomplishments

1. Key business process models in the NIH Commons were made widely available for business transactions.

Management and Administration

Goal: Improve compliance with the Prompt Payment Act.

FY 2000 Target

1. Reduce interest penalties and increase discounts by paying 93 % of invoices on time.

FY 2000 Accomplishments:

1. 95% of invoices were paid on time in FY 2000.

Goal: Improve the efficiency of the small acquisition process by continuing to expand the purchase card program.

FY 2000 Targets

1. \$160 million in orders.
2. 3,600 people trained to use cards.
3. 2,000 card holders.

FY 2000 Accomplishments

1. The volume of orders achieved in FY 2000 was \$173 million.
2. 3,391 people were trained in FY 2000 to use purchase cards.
3. At the end of FY 2000, there were 1,729 cardholders.

Training Support

Goal: Increase the pool of clinical researchers trained to conduct patient-oriented research.

FY 2000 Targets

- 1 Issue at least 80 career awards (K series awards) each in the K23 and K24 categories over the course of the fiscal year.

FY 2000 Accomplishments:

1. NIH made 189 K23 awards and 75 K24 awards in FY 2000.

Intramural Modernization and Maintenance

Goal: Complete the Dale and Betty Bumpers Vaccine Research Center.

FY 2000 Target:

1. Complete construction of the Dale and Betty Bumpers Vaccine Research Center.

FY 2000 Accomplishment:

- 1 Construction of the Dale and Betty Bumpers Vaccine Research Center was completed in FY 2000 as scheduled.

Goal: Complete the Louis Stokes Laboratories Building.

FY 2000 Target:

1. Complete 95% of construction.

FY 2000 Accomplishment:

Construction of the building reached the 90% phase at the end of FY 2000.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The NIH has prepared these financial statements to report the financial position and results of operations of the NIH, pursuant to the requirements of 31 U.S.C. 3515(b). While we have prepared these statements from the books and records of the NIH in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that we prepare from the same books and records.

The user of these statements should realize that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides budgetary resources to do so.

Report of Independent Auditors

To the Inspector General of the
Department of Health and Human Services, and
the Director of the National Institutes of Health

We have audited the consolidated balance sheet of the National Institutes of Health (NIH), an operating division of the Department of Health and Human Services as of September 30, 2000, and the related consolidated statements of net costs and changes in net position and the combined statements of budgetary resources and financing for the fiscal year then ended. These financial statements are the responsibility of NIH's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit for the year ended September 30, 2000 in accordance with auditing standards generally accepted in the United States; 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 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements 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 financial position of the NIH at September 30, 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information in the Overview of the NIH and the Required Supplementary Stewardship Information and Required Supplementary Information of the NIH is not a required part of the financial statements, but is considered supplementary information required by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended. Such information has not been subjected to

the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

However, we were unable to assess the control risk relevant to NIH's governmental transactions and balances, as required by OMB Bulletin 01-02, because reconciliations were unable to be performed with certain federal trading partners as required by January 7, 2000, technical amendments to OMB Bulletin 97-01.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 20, 2001, on our consideration of the NIH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

February 20, 2001

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED FINANCIAL STATEMENTS
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SEPTEMBER 30, 2000**

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**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED BALANCE SHEET**

As of September 30, 2000

(Dollars in Thousands)

	<u>Combined Totals</u>	<u>Intra-NIH Eliminations</u>	<u>Consolidated Totals</u>
ASSETS			
Intragovernmental:			
Fund balance with Treasury (Note 2)	\$ 16,574,173	\$	\$ 16,574,173
Investments (Note 3)	16,877	-	16,877
Accounts receivable (Note 4)	128,999	(19,342)	109,657
Advances and prepayments (Note 5)	106,606	(89,216)	17,390
Total Intragovernmental	<u>\$ 16,826,655</u>	<u>\$ (108,558)</u>	<u>\$ 16,718,097</u>
Accounts receivable (Note 4)	\$ 9,900	\$	\$ 9,900
Cash and other monetary assets	104		104
Inventory and related property (Note 6)	12,955		12,955
General property, plant and equipment, net (Note 7)	976,173		976,173
Other Assets (Note 5)	1,660		1,660
	<u>\$ 1,000,792</u>	<u>\$</u>	<u>\$ 1,000,792</u>
Total Assets	<u><u>\$ 17,827,447</u></u>	<u><u>\$ (108,558)</u></u>	<u><u>\$ 17,718,889</u></u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED BALANCE SHEET
As of September 30, 2000
(Dollars in Thousands)**

	<u>Combined Totals</u>	<u>Intra-NIH Eliminations</u>	<u>Consolidated Totals</u>
LIABILITIES			
Intragovernmental liabilities:			
Accounts payable (Note 8)	\$ 58,966	\$ (19,342)	\$ 39,624
Accrued payroll and benefits (Note 9)	18,133	-	18,133
Deferred revenue (Note 10)	89,216	(89,216)	-
Other (Note 11)	12,024	-	12,024
Total Intragovernmental	<u>\$ 178,339</u>	<u>(108,558)</u>	<u>\$</u>
Accounts payable (Note 8)	150,383	\$	150,383
Accrued grants liability (Note 12)	863,225		863,225
Environmental and disposal costs (Note 13)	8,700		8,700
Federal employee and veterans' benefits (Note 14)	57,863		57,863
Accrued payroll and benefits (Note 9)	232,540		232,540
Deferred revenue (Note 10)	21,440		21,440
Other (Note 11)	69,562		69,562
	<u>\$ 1,403,713</u>	<u>\$</u>	<u>\$ 1,403,713</u>
Total Liabilities	<u>\$ 1,582,052</u>	<u>\$ (108,558)</u>	<u>\$ 1,473,494</u>
NET POSITION (Note 15)			
Unexpended appropriations	\$ 15,333,599	\$	\$ 15,333,599
Cumulative results of operations	911,796		911,796
Total Net Position	<u>\$ 16,245,395</u>	<u>\$</u>	<u>\$ 16,245,395</u>
27 Total Liabilities and Net Position	<u>\$ 17,827,447</u>	<u>\$ (108,558)</u>	<u>\$ 17,718,889</u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED STATEMENT OF NET COSTS
For the Year Ended September 30, 2000
(Dollars in Thousands)**

	Combined Total	Intra-NIH Eliminations	Consolidated Total
Research Program			
Costs:			
Intragovernmental	\$ 1,643,211	\$ (1,007,509)	\$ 635,702
With the public	14,287,293	-	14,287,293
Total costs	<u>\$ 15,930,504</u>	<u>\$ (1,007,509)</u>	<u>\$ 14,922,995</u>
Less earned revenues:			
Intragovernmental	\$ 1,138,185	\$ (1,007,509)	\$ 130,676
From the public	101,990	-	101,990
Total earned revenues	<u>\$ 1,240,175</u>	<u>\$ (1,007,509)</u>	<u>\$ 232,666</u>
Net research costs	\$ 14,690,329	\$ -	\$ 14,690,329
Training/Career Development Program			
Net training/career development costs	870,728		870,728
Facilities Program			
Net facilities costs	187,006		187,006
Net Cost of Operations	<u>\$ 15,748,063</u>	<u>\$ -</u>	<u>\$ 15,748,063</u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2000
(Dollars in Thousands)**

Net Cost of Operations	\$	15,748,063
Financing Sources (Other than exchange revenue):		
Appropriations Used		15,771,066
Donations (Non-exchange revenue)		31,193
Imputed Financing Sources		73,385
Other Financing Sources		3,832
		<hr/>
Net Results of Operations	\$	131,413
Prior Period Adjustment (Note 17)		(41,945)
		<hr/>
Net Change in Cumulative Results of Operations	\$	89,468
Increase in Unexpended Appropriations		1,985,808
		<hr/>
Change in Net Position	\$	2,075,276
Net Position: Beginning of Period		14,170,119
		<hr/>
Net Position: End of Period	\$	<u>16,245,395</u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2000
(Dollars in Thousands)**

Budgetary Resources:

Budget Authority	\$	17,924,184
Unobligated Balances - Beginning of Period		305,095
Spending Authority from Offsetting Collections		1,212,140
Adjustments		(125,840)
		<hr/>
Total Budgetary Resources	\$	<u><u>19,315,579</u></u>

Status of Budgetary Resources:

Obligations Incurred	\$	18,959,620
Unobligated Balances - Available		207,508
Unobligated Balances - Not Available		148,451
		<hr/>
Total Status of Budgetary Resources	\$	<u><u>19,315,579</u></u>

Outlays:

Obligations Incurred	\$	18,959,620
Less: Spending Authority from Offsetting Collections and Adjustments		1,257,512
		<hr/>
Subtotal		17,702,108
Obligated Balance, Net -Beginning of Period		13,926,453
Less: Obligated Balance, Net -End of Period		16,213,577
		<hr/>
Total Outlays	\$	<u><u>15,414,984</u></u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
COMBINED STATEMENT OF FINANCING
For the Year Ended September 30, 2000
(Dollars in Thousands)**

RESOURCES USED TO FINANCE ACTIVITIES:

Budgetary

Budgetary resources obligated for orders and delivery of goods and services to be received or benefits to be provided to others	\$	18,959,620
Less: Offsetting collections, recoveries of prior-year authority, and changes in unfilled customer orders		(1,257,512)
Net budgetary resources used to finance activities		17,702,108

Non-budgetary

Cost incurred by others for the entity without reimbursement		73,385
Other non-budgetary resources used to finance activities		3,832
Net non-budgetary resources used to finance activities		
Total resources used to finance activities	\$	17,779,325

RELATIONSHIP OF TOTAL RESOURCES TO THE NET COST OF OPERATIONS:

Deduct resources used to fund items not part of the net cost of operations:		
Increase or (decrease) in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	\$	1,846,531
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses		
Decrease/(increase) in revenue collected in advance		8,276
Other		31,193
Adjustments other than collections made to compute net budgetary resources that do not affect cost of operations		
Recoveries of prior-year authority		(45,371)
Decrease/(increase) in unfilled customer orders		60,257
Resources that finance the acquisition of assets or liquidation of liabilities		251,375
Other resources used to fund items not part of the net cost of operations		16,606
Total Resources Used to Fund Items Not Part of the Net Cost of Operations		2,168,867
Resources Used to Finance the Net Cost of Operations	\$	15,610,458

COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES DURING THE REPORTING PERIOD:

Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:		
Expenses related to use of assets	\$	92,526
Losses/(gains) from revaluation of assets and liabilities		31 7,532
Decrease/(increase) in exchange revenue receivable from the public		10,751

Other	1,272
Subtotal	<u> </u>
Expenses that will be financed with budgetary resources recognized in future periods:	
Annual leave expense from increase in annual leave liability	6,549
Other	18,975
Subtotal	<u> </u>
Other Net cost components that do not require or generate resources during the reporting period	
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	<u> 137,605</u>
Net Cost of Operations	\$ <u> 15,748,063</u>

The financial statements should only be read in connection with the accompanying notes to the financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(Dollars in Thousands)**

- 1: Significant Accounting Policies**
- Note 2: Fund Balance with Treasury**
- 3: Investments**
- 4: Accounts Receivable**
- 5: Advances and Prepayments**
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- 7: General Property, Plant and Equipment**
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- Note 10: Deferred Revenue**
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- Note 15: Net Position**
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**DEPARTMENT OF HEALTH AND HUMAN SERVICES
NATIONAL INSTITUTES OF HEALTH
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(Dollars in Thousands)**

Note 1. Significant Accounting Policies

Basis of Presentation and Accounting Standards

We have prepared the accompanying consolidated financial statements to report the financial position and results of operations of the National Institutes of Health (NIH), pursuant to the requirements of the Chief Financial Officers Act of 1990 as enhanced by the Government Management Reform Act of 1994. We have prepared these financial statements from the accounting records of NIH in accordance with (1) accounting standards and concepts recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, Director of the Office of Management and Budget (OMB), and the Comptroller General; (2) guidelines specified by OMB's Bulletin 97-01, as amended, "Form and Content of Agency Financial Statements;" and, (3) the NIH's accounting policies summarized in this note. The hierarchy of accounting principles and standards is contained in OMB's Bulletin 97-01. These statements are different from other budget reports, also prepared by the NIH pursuant to OMB directives, which we and others use to monitor and control NIH's use of budgetary resources.

On October 9, 1999, the American Institute of Certified Public Accountants (AICPA) Council passed a resolution recognizing that standards promulgated by the FASAB constitute generally accepted accounting principles (GAAP) under Rule 203, "Accounting Principles," of the AICPA's *Code of Professional Conduct*. As a result, the federal accounting principles that we use to prepare our audited financial statements are in compliance with GAAP.

The statements should be read with the realization that they are for a component of a sovereign entity of the United States Government, and that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation.

The financial statements consolidate the balances of discrete Institute and Center appropriations, plus a number of accounts used for suspense, collection of receipts, the NIH Service and Supply Fund, the NIH Management Fund, and the NIH Buildings and Facilities appropriation. Material intra-NIH eliminations are removed from the consolidated balance sheet, consolidated statement of net cost, and the consolidated statement of changes in net position. The effects of intra-NIH transactions are not eliminated in the presentation of the other principle statements. These other statements are labeled as combined statements rather than consolidated statements.

Reporting Entity

The NIH is an Operating Division (OPDIV) of the Department of Health and Human Services (DHHS), which is a Cabinet agency of the Executive Branch of the United States Government. The NIH is composed of separate and distinct Institutes and Centers each with a separate, annual appropriation from the Congress and, most critical to the question of priorities, each with a mission established by the Congress. By law each must be funded and each is committed to certain domains of medical science (e.g., cancer, heart disease, aging, mental health). The NIH is the steward of medical and behavioral research for the nation. Its mission is to sponsor and conduct medical research that leads to better health for all Americans. The NIH accomplishes its mission by conducting and supporting research throughout the world.

Basis of Accounting

We have prepared the accompanying financial statements on an accrual basis and a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. In addition, NIH transactions are recorded on a budgetary basis. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Entity and Non-Entity Assets

Entity assets are those assets that the NIH holds and has the authority to use in its operations. Non-entity assets are assets the entity holds but does not have the authority to use. An example of a non-entity asset is accounts receivable from National Research Service Award recipients who do not perform their service obligation. We collect these amounts but do not have the authority to use these amounts in our operations.

Fund Balance with the U.S. Treasury

The U.S. Treasury processes receipts and disbursements. "Fund Balances with Treasury" cash balances are reconciled monthly with balances reported by the U.S. Treasury and adjusted at year-end to the reconciled Treasury balances. Any discrepancies that may occur are primarily due to timing differences on transactions involving the Division of Payment Management (DPM), DHHS Central Payroll, and foreign payments. Differences with Treasury balances may exist for those accounts that receive miscellaneous receipts but do not require budgetary resources to receive or use the receipts. Funds received by the Conditional Gift Fund are deemed restricted.

The non-entity fund balance with Treasury includes collections of Royalties from licensees on behalf of inventors, cash withheld for fellowship tax withholdings, and general fund receipts.

Investments

The NIH invests some of its Gift Fund accounts in short-term U.S. Treasury securities.

Accounts Receivable

Accounts receivable consists of amounts owed to NIH by other Federal agencies and the public. The non-entity accounts receivable amount comprises amounts due NIH under the National Research Service Award program.

Advances and Prepayments

Advances are cash outlays made by NIH to its grantees, employees or others to cover a part or all of the recipient's anticipated expenses or as advance payments for the costs of goods and services NIH receives. Prepayments are payments made to cover certain periodic expenses before they are incurred.

Inventory and Related Property

Materials and supplies for resale or use comprise equipment fabrication parts, renovation parts, and supply stock that are maintained in the Service and Supply Fund (SSF). The materials and supplies are valued using the moving-average method and are stated at cost.

General Property, Plant and Equipment

Property, plant and equipment (PP&E) are valued at cost. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. Personal property is depreciated over useful lives ranging from 5 to 20 years. Real property is depreciated over useful lives of 30 years. All PP&E with an initial acquisition cost of \$25,000 or more and an estimated useful life of two years or greater are capitalized.

Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. However, no liability may be paid by the NIH absent approved budgetary resources.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including budget authority and spending authority from offsetting collections. The majority of liabilities covered by budgetary resources include amounts payable to vendors who have provided goods or services to NIH and for accrued payroll.

Liabilities Not Covered by Budgetary Resources are those liabilities incurred for which funding has not yet been made available through congressional appropriations. Examples are environmental cleanup costs, Federal employee and veterans benefits, and earned annual leave.

Environmental Cleanup Costs

Statement of Federal Financial Accounting Standard (SFFAS) No. 5 provides criteria for recognizing a contingent liability for environmental cleanup costs. The NIH has an environmental cleanup liability that we further explain in footnote 12.

Federal Employee and Veterans' Benefits

The NIH recognizes amounts reported by the Department of Labor (DOL) for Federal Employee's Compensation Act (FECA) payments. Most NIH employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, NIH makes matching contributions equal to 7 percent of basic pay. For FERS employees, The DHHS contributes the employer's matching share for Social Security and contributes an amount equal to one percent of employee pay to a savings plan and matches up to an additional 4 percent of pay. Most employees hired after December 31, 1983 are covered by FERS. The U.S. Office of Personnel Management (OPM) reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

OMB's Bulletin 97-01 and SFFAS No. 5 requires agencies to recognize the value of pension benefits and other post retirement benefits expected to be funded and paid by the OPM in the future. These benefits include retirement payments, health insurance, and life insurance. Since these programs are normally administered by OPM, NIH does not recognize any liability on its balance sheet for these items. The unfunded imputed costs and the imputed financing sources are reported on the FY 2000 Statement of Net Costs, the Statement of Changes in Net Position, and the Statement of Financing.

Accrued Payroll and Benefits

The NIH recognizes liabilities for employee leave earned but not taken. Annual leave is accrued as earned and expended as taken. Sick and other types of leave are expended as taken but not accrued when earned.

Accrued Grants Liability

Statement of Federal Financial Accounting Standard (SFFAS) No. 5, requires that we record the amounts “due and payable to grantees” that they will ultimately report as expenditures. The DHHS Division of Payment Management (DPM), manager of DHHS’ central grants payment system, calculated an estimate for the amounts due and payable for all DHHS grant programs, which we subsequently recorded in our accounting system. Another portion of the grant accrual, known as the Incurred But Not Reported (IBNR) amount, represents expenses that grantees have incurred prior to September 30, 2000 that they did not report to us on their 4th quarter report. We estimated this amount using information we developed that showed that we had approximately 2 weeks of IBNR cost to record as a liability. We estimated the amount by dividing our 4th quarter estimated grant accrual by 92 days and multiplying by 2 weeks to derive the estimated liability.

Revenues and Other Financing Sources

Funding for the NIH is classified as revenue or other financing sources. Revenue is an inflow of resources that the Government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and non-exchange transactions. Exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a price. Another term for “exchange revenue” is “earned revenue.” Non-exchange revenues arise primarily from the Government’s power to demand payments from the public (e.g., taxes, duties, fines and penalties) but also include donations. Other financing sources include appropriations used, transfers of assets from other Government entities, and imputed financing.

Financing sources for the NIH are provided through Congressional appropriations and include both annual and multi-year appropriations. The NIH Central Service Offices and Centers provide reimbursable services to the NIH and other Federal government agencies. For financial statement purposes, appropriations are recognized as a financing source as accrued expenses are incurred. In addition, the NIH receives unsolicited gifts and grants and engages in Cooperative Research and Development Agreements with the private sector.

Leases

The NIH leases real estate facilities, primarily office and warehouse space, from the General Services Administration and others under operating leases.

Canceled Appropriations and Undelivered Orders

Unobligated and obligated balances withdrawn or canceled and returned to the Department of the Treasury for FY 2000 totaled \$75,369. The amount of budgetary resources obligated for undelivered orders for our appropriated and non-appropriated funds at the end of the period totaled \$ 15,044,900 and \$ 485,136 respectively.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Intra-Governmental Relationships and Transactions

In the course of its operations, NIH has relationships and financial transactions with other Federal agencies. These transactions primarily involve the General Services Administration for building leases, interagency agreements to collaborate on research projects, sales of goods and services from the NIH Service and Supply Fund, and assessments from the NIH Management Fund.

Note 2. Fund Balance with Treasury

The NIH's undisbursed account balance with the Department of the Treasury is \$16,574,173 comprising \$16,573,084 in entity assets and \$1,089 in non-entity assets. The Trust Funds balance is comprised of the Unconditional, the Conditional, and the Patient Benefit Gift Funds. The Revolving Funds balance includes the Service and Supply Fund. The Other Funds balance includes the Management Fund, Cooperative Research and Development Agreements Fund, Royalties Fund and balances in deposit, clearing, and suspense related accounts. The following is a breakdown of the NIH Fund Balance:

	<u>Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
Appropriated Funds	\$ 16,314,842	\$ -	\$ 16,314,842
Trust Funds	32,405		32,405
Revolving Funds	16,062		16,062
Other Funds	209,775	1,089	210,864
Totals	<u>\$ 16,573,084</u>	<u>\$ 1,089</u>	<u>\$ 16,574,173</u>

Note 3. Investments

The NIH invests trust fund cash that is in excess of current needs in U. S. Treasury securities. The U. S. Treasury Department is the NIH's agent.

	Value at <u>Par</u>	Amortization <u>Method</u>	Unamortized (Discount) <u>Premium</u>	Investments <u>Net</u>
Intragovernmental:				
Marketable Securities	\$ 17,486	Interest	\$ (609)	\$ 16,877

Note 4. Accounts Receivable

Accounts receivable from Federal agencies consists of sales of research goods and services from the Service and Supply Fund to other Federal agencies. Amounts due from the public are presented net of an allowance for uncollectible accounts.

Entity assets are those assets that the NIH holds and has the authority to use in its operations. Non-entity assets are assets the entity holds but does not have the authority to use. An example of a non-entity asset is accounts receivable from National Research Service Award recipients who do not perform their service obligation. We collect these amounts but do not have the authority to use these amounts in our operations. The estimate of the allowance of \$8,942 is based on past collection experience and/or analysis of the outstanding balances, primarily relating to National Research Services Awards.

	Accounts Receivable <u>Principal</u>	Interest <u>Receivable</u>	Accounts Receivable <u>Gross</u>	Accounts Receivable <u>Allowance</u>	Net Receivables <u>Combined</u>	Intra NIH <u>Eliminations</u>	Net Receivables <u>Consolidated</u>
Intragovernmental							
Entity	\$ 128,999	\$ -	\$ 128,999	\$ -	\$ 128,999	\$ (19,342)	\$ 109,657
Total Intragovernmental	\$ 128,999	\$ -	\$ 128,999	\$ -	\$ 128,999	\$ (19,342)	\$ 109,657
With the Public							
Entity	\$ 7,664	\$ -	\$ 7,664	\$ -	\$ 7,664	\$ -	\$ 7,664
Non-Entity	\$ 6,788	\$ 4,390	\$ 11,178	\$ (8,942)	\$ 2,236	\$ -	\$ 2,236
Total, With the Public	\$ 14,452	\$ 4,390	\$ 18,842	\$ (8,942)	\$ 9,900	\$ -	\$ 9,900

Note 5. Advances and Prepayments

Advances are made by NIH to others to cover part or all of the recipient's anticipated expenses or as advance payments for the costs of goods and services NIH receives. NIH has no Non-Entity Other Assets. Other Assets are comprised of the following:

	Entity Assets
Intragovernmental:	
Advances to Other Federal Entities	\$ 106,606
Less: Intra-OPDIV Eliminations	<u>(89,216)</u>
Total	<u>\$ 17,390</u>
With the Public:	
Other Advances	<u>\$ 1,660</u>
Total	<u>\$ 1,660</u>

Note 6. Inventory and Related Property

NIH's Inventory and Related Property consist of tangible personal property. Inventory and Related Property are items within the SSF that are for sale to and use by the NIH Institutes and Centers. Inventory and Related Property are recognized and reported as assets when purchased. Ultimately, these items are reported as an operating expense in the period they are issued to NIH Institutes and Centers. The items in Inventory and Related Property are valued using the moving-average method and are stated at cost, which at September 30, 2000 is \$ 12,955.

Note 7. General Property, Plant and Equipment

The following table summarizes property, plant and equipment balances as of September 30, 2000. Useful lives are assigned based on input from the NIH Office of Logistics Management in consultation with the end user of the asset. Depreciation is calculated on a straight-line basis.

	<u>Depreciation</u> <u>Method</u>	<u>Estimated</u> <u>Useful</u> <u>Lives</u>	<u>Acquisition</u> <u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
Land & Land Rights	N/A	N/A	\$ 14,336	\$	\$ 14,336
Construction in Progress	N/A	N/A	361,187		361,187
Buildings, Facilities & Other Structures	Straight Line	30 yrs	885,071	(477,287)	407,784
Equipment	Straight Line	5-20 yrs	375,890	(183,024)	192,866
Totals			<u>\$ 1,636,484</u>	<u>\$ (660,311)</u>	<u>\$ 976,173</u>

Note 8. Accounts Payable

Accounts payable primarily consists of amounts due to vendors for goods and services received. Accounts payable also include amounts due for progress in contract performance and miscellaneous other payables.

	<u>Intragovernmental</u>	<u>With the Public</u>	<u>Total</u>
Covered by Budgetary Resources	\$ 58,966	\$ 150,383	\$ 209,349
Less: Intra-NIH Eliminations	(19,342)	-	(19,342)
Total, Consolidated	<u>\$ 39,624</u>	<u>\$ 150,383</u>	<u>\$ 190,007</u>

Note 9. Accrued Payroll and Benefits

Accrued payroll, represents salaries and wages and other benefits that have been earned but are unpaid at the end of the month. Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The accrual for accumulated annual leave is based on current year pay rates.

	<u>Intragovernmental</u>			<u>With the Public</u>		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>
Accrued Payroll And Leave	\$	\$	\$	\$ 149,720	\$ 82,820	\$ 232,540
Payroll Withholding	8,052					
Accrued Workers Compensation (including FECA)	-	10,081	10,081			
Totals	\$ <u>8,052</u>	\$ <u>10,081</u>	\$ <u>18,133</u>	\$ <u>149,720</u>	\$ <u>82,820</u>	\$ <u>232,540</u>

Note 10. Deferred Revenue

Unearned revenue is recorded as deferred revenue until earned. The deferred revenue amount of \$89,216 is reflected as an intra-NIH elimination. The NIH Central Service Offices and Centers provide reimbursable services to the NIH. This amount is for *unearned* sales of goods and services from the NIH Service and Supply Fund and assessments from the NIH Management Fund.

The NIH engages in collaborative research with the private sector using Cooperative Research and Development Agreements (CRADAs). Typically a collaborating partner will provide the NIH with resources to engage in research projects. For accounting purposes, we treat all cash received for CRADAs as unearned or deferred revenue until we use the funds to pay for expenses incurred as part of the collaborative effort.

	<u>Intragovernmental</u>			<u>With the Public</u>		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>
Deferred Revenue	\$	\$ 89,216	\$ 89,216	\$	\$ 21,440	\$ 21,440
Less: Intra-NIH Eliminations		(89,216)	(89,216)			
Consolidated Deferred Revenue Totals	\$	\$	\$	\$	\$ 21,440	\$ 21,440

Note 11. Other Liabilities

Liabilities for clearing accounts are used for unclassified transactions when there is a reasonable presumption that the amounts belong to the NIH. These accounts are established to temporarily hold transactions that will subsequently be credited to a receipt or expenditure account of the NIH.

Custodial Liabilities are classified as *Intragovernmental* and *With the Public*. The *Intragovernmental* custodial liability of \$ 9,586 is for collections of miscellaneous receipts that the NIH turns over to the U.S. Treasury. The NIH receives general fund receipts for grantee or contractor audit disallowances, Freedom of Information Act payments, and miscellaneous receipts that NIH returns to the U.S. Treasury. The *With the Public* custodial liability of \$ 1,089 represents the amount the NIH collects on behalf of others that had not been disbursed as of September 30, 2000. These amounts are for collections associated with inventor royalties. The NIH collects royalties from its licensing activities for which a portion is paid to inventors under the Federal Technology Transfer Act.

The amounts that are recognized as other accrued liabilities are for amounts not otherwise classified as accounts payable. Other accrued liabilities are predominantly for utilities, rentals, and exhibit space.

	<u>Intragovernmental</u>			<u>With the Public</u>		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	<u>Total</u>
Liabilities for						
Deposit Funds and						
Clearing Accounts	\$ -	\$ -	\$ -	\$ 17,923	\$ -	\$ 17,923
Custodial Liabilities	-	9,586	9,586	-	1,089	1,089
Other	2,438	-	2,438	50,550	-	50,550
Combined Totals	\$ 2,438	\$ 9,586	\$ 12,024	\$ 68,473	\$ 1,089	\$ 69,562
Less: Intra-NIH						
Eliminations						
Consolidated						
Other Liabilities						
Totals	\$ 2,438	\$ 9,586	\$ 12,024	\$ 68,473	\$ 1,089	\$ 69,562

Note 12. Accrued Grants Liability

Grant advances are liquidated upon the grantee’s reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, DHHS developed Departmentwide procedures used by NIH to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through September 30, 2000.

The NIH records the estimated accrual for amounts due to grantees for their expenses at the end of the fiscal year. If the amount of outstanding advances exceeds the amount of the accrual, the NIH reports an asset for “Advances to Grantees.” Otherwise, the NIH reports a liability called “Accrued Grant Liability,” equal to the amount that the accrual exceeds the outstanding advances.

The liability of \$ 863,225 is the estimated amount due to grantees and contractors to cover project costs. Usually, we provide funds to the Payment Management Division in advance of grantees incurring costs, but as of September 30, 2000, our grantees and contractors have incurred costs in advance of our providing funds to cover the expense. The liability predominantly comprises the Incurred But Not Reported (IBNR) amount, which represents approximately two weeks of expenses that grantees have incurred prior to September 30, 2000, that they did not report to us on their 4th quarter 272 Report.

Grant Advances Outstanding (before year-end grant accrual)	\$	4,037,738
Less: Estimated Accrual for Amounts Due to Grantees		4,900,963
Net Grant Liability	\$	<u>(863,225)</u>

Note 13. Environmental Clean-up Costs

Environmental and Disposal Costs are the costs of removing, containing, and or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated Property, Plant and Equipment. Federal government accounting and reporting standards require all entities to report a liability for any probable and measurable clean-up costs for which they are responsible or for which they have assumed responsibility. The NIH management has determined that two active projects probably will result in an environmental clean-up. The liability at \$8,700 is based on the estimated cost to clean-up similar sites over the estimated time it would take for the clean-up.

<u>Project or Activity</u>	<u>Method for Assigning Cost</u>	<u>Total Estimated Cleanup Cost</u>	<u>Liabilities With the Public Not Covered by Budgetary Resources</u>
Bitterroot Valley Sanitary Landfill	Estimated Cost of Similar Remediation	\$ 3,000	\$ 3,000
Caribbean Primate Research Center	Estimated Cost of Similar Remediation	5,700	5,700
Total		<u>\$ 8,700</u>	<u>\$ 8,700</u>

Note 14. Federal Employees and Veterans' Benefits

The amount represents NIH's share of Federal Employees' Compensation Act benefits based on a Department of Labor (DOL) actuarial liability computation. The projected future liability was determined using the paid losses extrapolation method calculated over a 37 year time span. The actuarial amount allocated to NIH for FY 2000 is based upon the actual payments made to the DOL for fiscal years 1989 through 1999. The amount of \$ 57,863, is classified as not covered by budgetary resources since the payments will be made from future appropriations.

Note 15. Net Position

Net position is the difference between assets and liabilities. Net position is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations comprises two components: (1) unobligated appropriations that are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law, and (2) undelivered orders, which represents appropriations obligated (i.e., legally reserved) for the amount of goods or services ordered but not yet received. Cumulative results of operations represents the net difference between (1) expenses and losses and (2) financing sources, including appropriations used, and revenues and gains since the inception of the NIH.

	<u>Other Funds</u>	<u>Revolving Funds</u>	<u>Appropriated Funds</u>	<u>Totals</u>
Unexpended Appropriations:				
Unobligated,				
Available	N/A	N/A	\$ 143,483	\$ 143,483
Unavailable	N/A	N/A	145,216	145,216
Undelivered Orders	N/A	N/A	15,044,900	15,044,900
Subtotals	N/A	N/A	\$ 15,333,599	\$ 15,333,599
Cumulative Results of Operations	\$ 498,687	\$ 29,353	383,756	911,796
Net Position	<u>\$ 498,687</u>	<u>\$ 29,353</u>	<u>\$ 15,717,355</u>	<u>\$ 16,245,395</u>

Note 16. Operating Leases

The NIH leases several buildings primarily from the General Services Administration at various sites located in Montgomery County and Baltimore, Maryland and Research Triangle Park, North Carolina. The buildings are used for office, laboratory, and warehouse space to meet the mission of NIH. Generally, the NIH leases do not contain cancellation rights.

Future Payments Due:

<u>Fiscal Year</u>	<u>Total</u>
FY 2001	\$ 51,138
FY 2002	50,321
FY 2003	49,727
FY 2004	49,259
FY 2005	47,906
After 5 years	<u>314,434</u>
Total Future Lease Payments	\$ <u>562,785</u>

Note 17. Prior Period Adjustment

The prior period adjustments on the FY 2000 financial statements relate to changes in accounting policy and corrections of errors. The table below lists the components of the prior period adjustment.

Adjustment to Beginning Net Position	\$	57,167
Adjustment to Advances and Prepayments		(22,587)
Other smaller adjustments		7,365
Prior Period Adjustments	\$	<u>41,945</u>

The prior period adjustment of \$ 22,587 represents a change in our accounting procedures to record an advance by a NIH Institute or Center to the NIH Management Fund. This advance is then offset by a liability for unearned revenue that is recorded by the NIH Management Fund. In the past, the NIH Institutes or Centers expensed such amounts as a current cost. The prior period adjustment of \$22,587 reduces prior years' expenses and reclassifies the amount that should still be recognized as an advances by a NIH Institute or Center. The prior period adjustment of \$ 57,167 represents the cumulative effect of corrections of errors to prior years' net position identified during the roll-forward analysis.

Note 18. Statement of Budgetary Resources

The Statement of Budgetary Resources reflects the budgetary resources available to the NIH and the status of those resources. The budgetary resources obligated for undelivered orders for our appropriated and non-appropriated accounts at the end of FY 2000 totaled \$ 15,044,900 and \$ 485,136 respectively. Unobligated and obligated balances withdrawn or canceled and returned to the Department of the Treasury for FY 2000 totaled \$75,369.

Note 19. Statement of Financing

The Statement of Financing reflects the resources NIH used to finance its net cost of operations. Included on this statement are costs for which NIH does not use current budgetary resources. These costs include \$ 6,549 for accrued unfunded annual leave, which NIH accrues as a cost when the leave is earned. This amount is classified as unfunded since the payments will be made from future appropriations. In addition, this statement reflects the imputed cost attributable to the NIH for expenses incurred by other Federal agencies. For example, the NIH recognized \$ 73,385 for the actuarial cost of pension and other related benefits for current NIH employees.

Required Supplementary Stewardship Information

**U.S. Department of Health and Human Services
National Institutes of Health
Stewardship Investments
Investment in Research and Development
For the Year Ended September 30, 2000
(in thousands)**

The NIH Research Program includes all aspects of the medical research continuum, including basic and disease-oriented research; observational and population-based research; behavioral research; and clinical research, including research to understand both health and disease states, to move laboratory findings into medical applications, to assess new treatments or compare different treatment approaches; and health services research. The timely dissemination of medical and scientific information is also a critical component of NIH's Research Program. Furthermore, NIH regards the expeditious transfer of the results of its medical research for further development and commercialization of products of immediate benefit to improved health as an important mandate.

		<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Basic Research	N/A	N/A	\$ 5,805,167	\$ 7,113,413	\$ 8,539,084	\$ 21,457,664
Applied Research	N/A	N/A	3,870,11	4,742,275	5,933,939	14,546,325
Total			<u>\$ 9,675,278</u>	<u>\$ 11,855,688</u>	<u>\$ 14,473,023</u>	<u>\$ 36,003,989</u>

Required Supplementary Stewardship Information

**U.S. Department of Health and Human Services
National Institutes of Health
Stewardship Investments
Investment in Human Capital
For the Year Ended September 30, 2000
(in thousands)**

The NIH Research Training and Career Development Program addresses the need for trained personnel to conduct medical research. The primary goal of the support that NIH provides for graduate training and career development is to produce new, highly trained investigators who are likely to perform research that will benefit the Nation's health. Our ability to maintain the momentum of recent scientific progress and our international leadership in medical research depends upon the continued development of new, highly trained investigators.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>	
Research Training and Career Development	N/A	N/A	\$ 660,465	\$ 820,483	\$ 871,691	\$ 2,352,639

Required Supplementary Information

**National Institutes of Health
Condensed Balance Sheet
Franchise and Intragovernmental Support Revolving Fund
For the year ended September 30, 2000
(in thousands)**

Assets

Fund Balance with Treasury	\$ 16,069
Accounts Receivable	14,971
PP & E	20,456
Other Assets	17,958
Total Assets	<u>\$ 69,454</u>

Liabilities

Liabilities for Goods and Services	\$ 16,760
Deferred Revenue	14,293
Other Liabilities	9,048
Total Liabilities	<u>\$ 40,101</u>

Net Position

Cumulative Results of Operation	\$ 29,353
Total Net Position	<u>\$ 29,353</u>

Total Liabilities and Net Position	<u>\$ 69,454</u>
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Required Supplementary Information

**National Institutes of Health
Condensed Statement of Net Cost
Franchise and Intragovernmental Support Revolving Fund
For the year ended September 30, 2000
(in thousands)**

Program/Business Line	Intra- governmental	With the Public	Gross Costs	Less: Earned Revenue	Net Costs
Administrative Services	\$ 31,262	\$ 107,065	\$ 138,327	\$ 143,021	\$ (4,694)
Information Technology	17,871	61,204	79,075	87,067	\$ (7,992)
Instrumentation Services	2,318	7,939	10,257	10,828	\$ (571)
Animal Services	5,927	20,299	26,226	26,723	\$ (497)
Total	<u>\$ 57,378</u>	<u>\$ 196,507</u>	<u>\$ 253,885</u>	<u>\$ 267,639</u>	<u>\$ (13,754)</u>

Required Supplementary Information

U. S. Department of Health and Human Services National Institutes of Health DEFERRED MAINTENANCE For Year Ended September 30, 2000

The National Institutes of Health estimates that its deferred maintenance is approximately \$143.7 million. This estimate is based upon a condition assessment conducted by NIH building and facilities engineers. The following table displays the condition of NIH assets and the estimated cost to return the asset to an acceptable condition.

<u>Category</u>	<u>Asset Condition</u>	<u>Cost to Return to Acceptable Condition</u>
General PP&E		
Land	1	\$0
Buildings	3	\$143.7 million
Equipment	2	\$0

Asset condition is assessed on a scale of 1-5 as follows:

Excellent=1; Good=2; Fair=3; Poor=4; Very Poor=5

A "fair" or 3 rating is considered acceptable operating condition. Although PP&E categories may be rated as acceptable, individual assets within a category may require maintenance work to return them to acceptable operating condition. Therefore, asset categories with an overall rating of "fair" or above may still report necessary costs to return them to acceptable condition.

Required Supplementary Information

**U.S. Department of Health and Human Services
National Institutes of Health
INTRAGOVERNMENTAL ASSETS
For Year Ended September 30, 2000
(Dollars in Thousands)**

<u>Agency</u>	<u>Fund Balance with Treasury</u>	<u>Investments</u>	<u>Accounts Receivable</u>	<u>Advances and Prepayments</u>
Department of Defense	\$ -	\$ -	\$ 1,117	\$ -
Department of the Treasury	16,574,173	16,877	-	-
Department of Health and Human Services	-	-	21,792	89,216
All Other Federal Agencies	-	-	106,090	17,390
Total	<u>\$ 16,574,173</u>	<u>\$ 16,877</u>	<u>\$ 128,999</u>	<u>\$ 106,606</u>

Required Supplementary Information

**U.S. Department of Health and Human Services
National Institutes of Health
INTRAGOVERNMENTAL LIABILITIES
For Year Ended September 30, 2000
(Dollars in Thousands)**

<u>Agency</u>	<u>Accounts Payable</u>	<u>Accrued Payroll and Benefits</u>	<u>Deferred Revenue</u>	<u>Other</u>
Department of Defense	\$ 10,929	\$	\$	\$ -
Department of Treasury	-		-	9,587
Department of Health and Human Services	46,398	-	89,216	
Office of Personnel Management	18	8,053		
Department of Labor	-	10,080		2,389
All Other Federal Agencies	1,621	-		48
Total	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>