



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**NATIONAL TECHNICAL
INFORMATION SERVICE**

Financial Statements
Fiscal Year 2003

Audit Report No. FSD-16073-4-0001/December 2003

Office of Audits, Financial Statements Audits Division



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

DEC 12 2003

MEMORANDUM FOR: Ronald Lawson
Director, National Technical Information Service

FROM: Johnnie E. Frazier

SUBJECT: *NTIS' FY 2003 Financial Statements*
Audit Report No. FSD-16073-4-0001

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the National Technical Information Service's FY2003 financial statements. The audit results indicate that NTIS has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend NTIS for the noteworthy accomplishment of again attaining an unqualified opinion.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of NTIS' financial statements as of and for the year ended September 30, 2003. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In its audit of NTIS, KPMG found that:

- the financial statements were fairly presented, in all material respects, and in conformity to U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control, as defined on page 2 of the audit report; and
- there were no instances in which NTIS' financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996, and no reportable noncompliance with other laws and regulations tested.

My office defined the audit's scope and oversaw its performance and delivery. We reviewed KPMG's report and related documentation, and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with *Government Auditing Standards*. However, our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on NTIS' financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 14, 2003, and the conclusions expressed in the report.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Michael Sears, Assistant Inspector General for Auditing, on (202) 482-1934. We appreciate the cooperation and courtesies NTIS extended to KPMG and my staff during the audit.

Attachments

cc: Phillip J. Bond
Under Secretary of Commerce for Technology
Technology Administration

Benjamin H. Wu
Deputy Under Secretary of Commerce for Technology
Technology Administration

Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration
Department of Commerce

National Technical Information Service

FINANCIAL OVERVIEW AND FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2003

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2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General, U.S. Department of Commerce and
Director of the National Technical Information Service:

We have audited the accompanying balance sheet of the National Technical Information Service (NTIS), an Agency within the U.S. Department of Commerce, as of September 30, 2003, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered NTIS' internal control over financial reporting and tested NTIS' compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that NTIS' financial statements as of and for the year ended September 30, 2003, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We also audited the adjustment described in Note 10 that was applied to restate the 2002 financial statements and concluded it was appropriate and properly applied.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on NTIS' financial statements, our consideration of NTIS' internal control over financial reporting, our tests of NTIS' compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheet of the National Technical Information Service as of September 30, 2003, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year then ended. We also audited the adjustment described in Note 10 that was applied to restate the 2002 financial statements. In our opinion, such adjustment is appropriate and has





been properly applied. The accompanying financial statements as of and for the year ended September 30, 2002, were audited by other auditors who issued an unqualified opinion thereon, dated December 13, 2002, prior to the restatement discussed in Note 10.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NTIS as of September 30, 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, cumulative results of operations as of October 1, 2001, was restated to correct for an error in recording accounts payable to another federal entity in prior periods.

The information in the Management's Discussion and Analysis and Required Supplemental Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

* * * * *

However, we noted other matters involving internal control over financial reporting and its operation that we have reported to the management of NTIS in a separate restricted use and distribution IT report dated November 3, 2003, and in a separate letter to management dated December 4, 2003.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with other laws and regulations, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which NTIS' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

RESPONSIBILITIES

Management's Responsibilities

Management is responsible for the financial statements, including:



- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures) and required supplemental information, and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 financial statements of NTIS based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 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;
- Assessing the accounting principles used and significant estimates made by management, and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered NTIS' internal control over financial reporting by obtaining an understanding of NTIS' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether NTIS' fiscal year 2003 financial statements are free of material misstatement, we performed tests of NTIS' compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and



regulations applicable to NTIS. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMIA, we are required to report whether NTIS' financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended solely for the information and use of NTIS' management, the U.S. Department of Commerce's Office of the Inspector General, OMB, GAO, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 4, 2003

II. MANAGEMENT'S DISCUSSION AND ANALYSIS **FISCAL YEAR 2003**

1. NATIONAL TECHNICAL INFORMATION SERVICE (NTIS) MISSION

NTIS traces its history to the Publications Board, a World War II agency created by President Truman to collect classified scientific and technical information performed by or for the Government in support of the war effort and to review it for release to the public. The Board's role was later expanded to include the review and release of captured enemy research as well. The Secretary of the U.S. Department of Commerce (Department) continued to perform this function in the postwar period as part of the Department's overall mission to promote foreign and domestic commerce. Congress formalized this role in 1950 by directing the Secretary to establish a clearinghouse for the collection and dissemination of scientific and technical information "from whatever sources, foreign and domestic, that may be available" and to make "the results of technological research and development readily available to industry and business, and to the general public." The National Technical Information Service, in its current form, was established within the Department in 1970. NTIS is now part of the Technology Administration and reports to the Under Secretary of Commerce for Technology, whose overarching mission is to promote U.S. industrial productivity, technology and innovation.

The Department's Strategic Plan for Fiscal Years 2004 – 2009 states that one of its principal objectives during this period will be to "develop tools and capabilities that improve the productivity, quality, dissemination and efficiency of research." The Department has recognized NTIS' role in meeting this objective, noting that "NTIS continues to meet the challenge of permanent preservation and ready access to the taxpayers' investment in research and development through the acquisition, organization, and preservation of the titles added annually to the permanent collection" and by "providing technologically advanced global e-commerce channels for dissemination of specialized information to business, industry, government and the public." The Department will be looking at NTIS to enhance public access to the information in its collection and will measure its performance by looking at the number of items added to its collection, the number of information products disseminated and customer satisfaction.

The Annual Performance Plan for FY 2004 summarizes NTIS mission as "support(ing) the Nation's economic growth and job creation by providing access to information that stimulates innovation and discovery." As such, it supports the Department's strategic goal of providing "infrastructure for innovation to enhance American competitiveness." NTIS performance will be measured by how well it enhances public access to worldwide scientific and technical information through improved acquisition and dissemination activities. Performance measures for FY 2003 are described in Section II.5.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

2. NTIS AUTHORITIES AND OPERATIONS

AUTHORITIES

NTIS's basic authority is to operate a permanent clearinghouse of scientific and technical information is codified as chapter 23 of Title 15 of the United States Code (15 U.S.C. 1151-1157). This chapter also established its authority to charge fees for its products and services and to recover all costs through such fees "to the extent feasible." This authority was restated in the National Technical Information Act of 1988, codified at 15 U.S.C. 3704b. That Act gave NTIS the authority to enter into joint ventures and declared the Clearinghouse to be a permanent Federal function that could not be eliminated or privatized without Congressional approval. That Act was amended by the American Technology Preeminence Act of 1992 (Public Law 102-245) which (1) required all costs associated with bibliographic control to be recovered by fees, (2) required agencies to make copies of their scientific and technical reports available to NTIS, and (3) directed NTIS to focus on developing new electronic methods and media for disseminating information.

Other statutes having a profound impact on NTIS include (1) 1988 amendments to the Stevenson-Wydler Technology Innovation Act, which established a Technology Administration in the Department of Commerce and made NTIS one of its constituent elements, and (2) the Commerce, Justice, State Appropriations Act for FY 1993 (Public Law 102-395) which established NTIS' Revolving Fund and gave it the authority to use that Fund without further approval by Congress. In addition, section 1526 of title 15 of the United States Code authorizes NTIS to accept payments in advance for services to be provided to other agencies.

OPERATIONS

NTIS is located in Springfield, Virginia. Its operations all pertain to information dissemination and are all reported within the "Clearinghouse Program." A detailed description of the activities follow:

Clearinghouse Program

The Clearinghouse program generally describes the various activities that NTIS undertakes to disseminate information from its own collection of approximately three million titles or dissemination services provided to other agencies.

Information disseminated from its own collection includes sales of individual technical reports, computer products, standing orders for particular reports as they are issued, paper and electronic subscription products, and revenue derived from leasing the NTIS Bibliographic Database. This information generally consists of scientific and technical research produced by Federal agencies or their contractors and grantees and complementary information produced by foreign governments. Under a 1954 Comptroller General opinion, scientific and technical information has been deemed to include economic, statistical and other business-related information.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

2. NTIS AUTHORITIES AND OPERATIONS, Cont.

OPERATIONS, Cont.

Clearinghouse Program, cont.

Traditionally, customers learned of these various products through media announcements, exhibits, NTIS announcement products and searching the NTIS Bibliographic Database. They could access the Database by subscribing to services of information vendors who would lease the NTIS Database for the purpose of making it available to customers. As a result, the only persons who had practical access to the Database were those who worked for research institutions of the type that would typically subscribe to an information vendor's services. To broaden its exposure NTIS formally launched a new web site during FY 2002 offering users access to the post-1990 portion of the NTIS Database and the opportunity to download documents for free or at a nominal charge if NTIS has the document in electronic image.

In addition to direct sales from its own collection, NTIS also provides a variety of dissemination services for other agencies, many of which lack the specialized resources needed to produce and disseminate their information products or to process payments for these products on a large scale. The systems, equipment, financial structure and specialized staff skills that NTIS maintains to provide Clearinghouse products allow NTIS to offer similar services to other agencies.

In FY 2003, NTIS merged what was formerly a separate Line of Business "Web Hosting" within the Clearinghouse Program. The need for this separate line of business has diminished because customers now require more of NTIS than simply a web platform. NTIS has developed a highly sophisticated platform and suite of related services that permits agencies to use the World Wide Web effectively for communicating or conducting transactions with their employees, constituencies, or the general public. The platform is particularly useful for agencies that need to conduct a high volume of transactions in a secure environment. NTIS' state of the art infrastructure provides agencies with the opportunity to utilize NTIS' systems and resources to develop web-based systems uniquely designed to fulfill their specific requirements.

Other Reported Items

Other Reported Items consists of imputed financing related to NTIS' share of the cost to the Federal government for providing pension and post-retirement health and life insurance benefits to all eligible NTIS employees.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

3. NTIS ORGANIZATION

NTIS includes six major organizations as shown on the organization chart that follows. The organizations are described in detail below. The position data is as of September 30, 2003.

Office of the Director (5 Positions):

The Director's Office provides senior-level direction for all NTIS operations. This office coordinates strategic planning activities, manages NTIS' public affairs and Congressional relations programs, serves as liaison to the Under Secretary for Technology and other senior Department of Commerce officials, and coordinates the review of all agreements to provide services to other federal agencies for consistency with NTIS' mission.

Office of the Chief Information Officer (CIO) (30 Positions):

The Chief Information Officer is responsible for developing and administering plans, policies and standards for acquiring and using information technology. The office also provides information and technology support services to other NTIS offices and provides web hosting and information management services to other federal agencies.

Office of the Chief Financial Officer (CFO) (21 Positions):

The Chief Financial Officer is responsible for managing all financial and administrative activities. Financial activities include developing and analyzing NTIS' budgets and financial plans, managing its accounting system, providing financial services to NTIS offices and clients, and coordinating NTIS financial activities with the Department's CFO and the Office of Management and Budget in the Executive Office of the President. Administrative services include personnel, procurement, security, and real property management.

Associate Director for Business Development (24 Positions):

This office is responsible for identifying and acquiring scientific, technical, engineering and business-related information from domestic and foreign sources and for developing programs aimed at increasing the sale of NTIS products to the public and services to other agencies.

Associate Director for Customer Services (31 Positions):

This office provides direction and oversight of NTIS customer-contact functions including order receipt, order entry, complaint resolution, Freedom of Information Act (FOIA) and Congressional requests, and general information requests for all NTIS products.

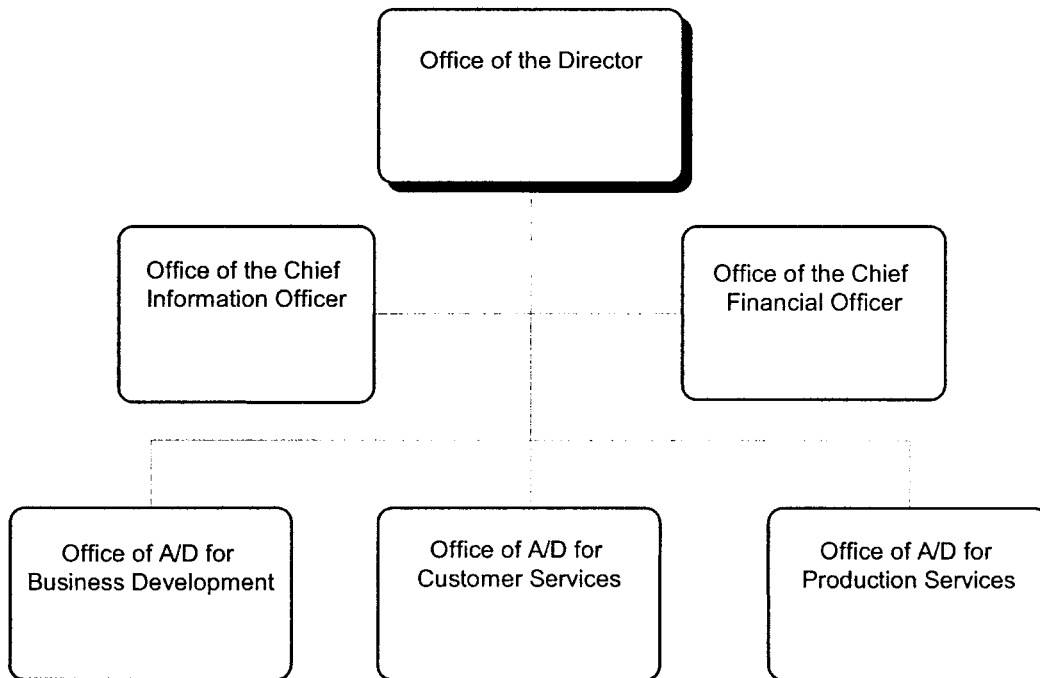
Associate Director for Production Services (64 Positions):

This office is responsible for managing all cataloging, indexing and abstracting activities associated with developing the NTIS Bibliographic Database and providing bibliographic research services. In addition, the office is responsible for managing all order fulfillment operations. These include product warehousing, inventory control and distribution, and imaging and reproducing material disseminated by NTIS either from its own collection or pursuant to service agreements with other federal agencies.

IV. MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2003

3. NTIS ORGANIZATION, Cont.

U.S. Department of Commerce
National Technical Information Service



II. MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2003

4. ANALYSIS OF FY 2003 RESULTS

As Chart #1 shows, NTIS' cumulative net from Clearinghouse Program operations for the previous three-year period is \$3,646K.

<u>Historical Comparison</u>				Chart #1
(\$ In Thousands)				
<u>Year</u>	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	
2001	\$34,336	\$31,945	\$2,290	
2002	30,573	29,227	1,346	
2003	28,321	28,311	<u>10</u>	
Cumulative Net			\$3,646	

Chart #2 displays NTIS' financial results (as described in Section 2) for FY 2003 and FY 2002:

Total Revenue, Cost and Net by Line of Business							Chart #2
(\$ In Thousands)							
	<u>FY 2003</u>			<u>FY 2002</u>			
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	
Clearinghouse Program	\$28,321	\$28,311	\$ 10	\$30,573	\$29,227	\$1,346	
Other Reported Items	<u>982</u>	<u>982</u>	<u>0</u>	<u>1,037</u>	<u>1,037</u>	<u>0</u>	
TOTAL NTIS	\$29,303	\$29,293	\$ 10	\$31,610	\$30,264	\$1,346	

As Chart #2 indicates, NTIS once again ended the year with a profit. A detailed analysis of the Clearinghouse Program begins on the following page.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

4. ANALYSIS OF FY 2003 RESULTS, Cont.

As the charts on the previous page show, NTIS reported profits of \$10,000 in FY 2003. While this is small in comparison to the previous two years, it is noteworthy that, despite the loss of the IRS Tax Forms Web Site that contributed \$4,382K in FY 2002 revenue, the FY 2003 revenue decline was only \$2,252K. NTIS was able to end the year profitably because of a combination of business development successes and attention to cost control. FY 2003 Clearinghouse Program highlights include:

- NTIS introduced a new look and feel to the home page of its very successful web site, www.ntis.gov. The new, dynamic home page now features more product choices and increases NTIS' visibility on the World Wide Web.
- NTIS is working closely with the Office of Management and Budget, the Department of Labor, the Department of Defense, the General Services Administration and others participating in an OMB-sponsored Inter-Agency Task Force to develop a single website for access to federal contract labor standards information and wage determinations. The new program located at www.wdol.gov provides the public and federal contracting community ready access to wage determinations required on most federally funded construction and/or service contracts. Wage Determinations On Line (WDOL) is part of the Integrated Acquisition Environment, one of the E-Government Initiatives that makes up the President's Management Agenda.
- Because of NTIS' expertise and excellence in handing product distributions, the U.S. Department of Agriculture (USDA) is relying on NTIS resources more and more to manage their educational nutritional information distributions. Distributions increased by nearly 5 million units in FY 2003 from 14 million units in FY 2002. USDA anticipates an additional increase of 25% in FY 2004.
- NTIS' product offering "World News Connection (WNC)" is a compilation of news and information from around the world. For more than 30 years, NTIS distributed this valuable information in hardcopy and, beginning in 1995, on-line. In December 2002, NTIS entered into a joint venture agreement to increase the dissemination and use of WNC. The joint venture partner launched the new product offering in May 2003 and NTIS anticipates continued growth in this product as a result of this partnership.
- NTIS developed and has hosted the Defense Acquisition University (DAU) Distance Learning Website since its inception in 1997. This website coordinates the training programs designed to meet the training requirements of approximately 132,000 DoD Acquisition, Technology and Logistics (AT&L) workforce personnel. In FY 2003, NTIS assisted DAU to transition to and launch their new learning management system "ATLAS".
- NTIS developed, hosted and provided technical support to assist the U.S. Customs and Border Protection (CBP), a part of the Department of Homeland Security, in providing 24/7 support for their web site. During the latter part of FY 2003, NTIS began work with CBP to include Oracle database applications to support current and evolving CBP Web-based database applications.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

4. ANALYSIS OF FY 2003 RESULTS, Cont.

- With the development of the DOL/OLMS website finalized in FY 2002, NTIS now provides full hosting, maintenance, IT and help desk support for the DOL/OLMS website for Labor Management Financial Disclosure Electronic Forms, allowing 33,000 labor unions to fill in, download and/or print or electronically file their annual financial disclosures using ACES PKI digital signature technology to DOL/OLMS Union Reports Database via this dynamic website. As a result of this collaboration with DOL, NTIS was able to acquire or develop four new products now available for sale from NTIS.
- Audiovisual Services provides resources and expertise to federal agencies, on a reimbursable basis, in production and distribution of their multimedia products to the public. Revenue for this product line can fluctuate greatly from one year to the next depending on the level of services required of NTIS by the other agencies. In FY 2003, the Social Security Administration (SSA) requested the help of NTIS to coordinate its "Save for Your Future" campaign.

It is also noteworthy that NTIS was able to accomplish all of these new initiatives and continue providing all existing products and services with a declining workforce. In the past three years, NTIS has lost 47 employees while filling only 17 vacancies. The reorganization of NTIS was finalized in FY 2003 and aided in streamlining operations and eliminating the need to back-fill some of the vacancies. All of the new hires have been in key positions, primarily in the CIO area to ensure the continuation of both internal operations and to fulfill service customer agreement terms. The staff remaining has rallied together to build on existing resources and to work smarter and harder to continue providing the excellent service that NTIS' customers and service clients have grown to expect and which NTIS strives to achieve.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

5. PERFORMANCE MEASURES

NTIS' mission is to make the results of technological research and development more readily available to industry and business and to the general public. To accomplish this mission there are three basic functions that must take place: (1) acquisition of the products to be made available, (2) dissemination of those products, and (3) the resulting customer satisfaction. These three components are measured as follows:

- **Acquisitions – Number of New Items Available**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	510,000	514,129	Met
FY 2003	520,000	530,910	Met
FY 2004	525,000	N/A	N/A

This measures the number of new information items available from NTIS (annually). It represents the number of scientific, technical and engineering information products made available to the public. In FY 2003, NTIS expanded and refined efforts to acquire new scientific and technical information products by harvesting products from the World Wide Web. These harvesting efforts together with increased availability of online electronic subscription products demonstrate NTIS' success in making new products available to the public.

- **Dissemination – Number of Information Products Disseminated**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	16,000,000	16,074,862	Met
FY 2003	17,000,000	29,134,050	Met
FY 2004	18,000,000	N/A	N/A

This measure represents information disseminated and includes compact discs, diskettes, tapes, online subscriptions, web site pages, as well as the traditional paper and microfiche products. The shift in information dissemination has improved NTIS's ability to provide quality products, to increase the number of products distributed and expand the number of customers that have access to valuable scientific and technical information. As these measures indicate, NTIS continues to enhance its ability to stay current in the e-commerce environment, while continuing to serve customers that require the more traditional distribution methods.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2003

5. PERFORMANCE MEASURES, Cont.

- **Customer Satisfaction**

<u>Year</u>	<u>Target</u>	<u>Actual</u>	<u>Comment</u>
FY 2002	97%	98%	Met
FY 2003	98%	97%	Not Met
FY 2004	98%	N/A	N/A

This measures the percent of satisfied customer orders. It is derived from the number of customer complaints compared to the number of orders taken. This statistic is representative of NTIS' commitment to quality customer service and satisfaction. The reasons for the slight decline in customer satisfaction have been identified and corrected and the FY 2004 target reflects NTIS' confidence that the measure will improve as a result.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2003

6. FY 2004 GOALS

For FY 2003 NTIS' major goal was to make prudent use of its joint venture authority to reduce costs and leverage resources. In addition, the Annual Report for FY 2002 expressed the hope that NTIS would conclude agreements with joint venture partners to optimize dissemination of, and revenue from, its World News Connection service and to establish an e-learning platform for use by Federal agencies requiring a high degree of security. Each of these was accomplished.

FY 2004 NTIS' general goal will be to increase overall sales volume by raising its profile to both buyers and suppliers, while continuing to develop new lines of high margin business using its joint venture capabilities. Lines of business to be explored will include data warehousing/disaster recovery, web-delivered course development, and a business-to-business (B2B) website that could make it easier for NTIS to work with business partners to deliver products via the web, including information in the NTIS collection and its Database.

In addition, NTIS' goal is to contribute successfully to the Department of Commerce's strategic goal of developing tools and capabilities to improve the productivity, quality, dissemination, and efficiency of research. To that end, NTIS is committed to increasing the number of new items it makes available, increasing the number of information products disseminated annually, and enhancing customer satisfaction. These are explained more fully in the previous section on "Performance Measures."

NTIS' financial plan for FY 2004 is summarized in Chart #3. Detailed information is shown on the following page in Chart #4.

Chart #3			
<u>FY 2004 Financial Plan</u>			
(\$ In Thousands)			
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>
2004	\$30,644	\$30,395	\$249

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart #4

Fiscal Year 2003

(\$ in thousands)

6. FY 2004 Goals

FY 2004 Revenue, Cost and Net by Product Grouping

	Year ending September 30, FY 2004		
	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>
<u>Clearinghouse Program</u>			
Announcement Products	\$915	\$3,534	(\$2,619)
Full Text Reports	3,615	3,861	(246)
Computer Products	5,455	4,979	476
Standing Order Products	1,627	1,228	399
Paper Subscriptions	615	721	(106)
Electronic Subscriptions	2,773	2,081	692
Miscellaneous Products	2,123	1,888	235
Clearinghouse Services	<u>12,321</u>	<u>10,903</u>	<u>1,418</u>
Subtotal Clearinghouse Program:	\$29,444	\$29,195	\$249
<u>Other Reported Items</u>			
Other Reported Items	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$0</u>
Total NTIS:	\$30,644	\$30,395	\$249

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

7. ADDITIONAL INFORMATION

SYSTEMS CONTROLS AND LEGAL COMPLIANCE:

NTIS' systems support its mission, which is to operate a central point of access within the U.S. government for technical information of all kinds that may be useful to American business and industry. In accordance with the Federal Financial Management Improvement Act (FFMIA) of 1996, NTIS is using the Standard General Ledger and has complied with Federal accounting standards and all applicable law and regulations. All systems provide effective interfaces and allow adequate reconciliation and reliable audit trails

CURRENT TRENDS AND EFFECTS:

Current trends present challenges as well as opportunities for NTIS. As we noted in last year's annual report, studies published by the National Science Foundation indicated that the Government is funding much less of the Nation's overall R&D than it used to, with increasing amounts going to health-related research. In addition, the nation is becoming more service-oriented than ever. Thus, we concluded that there was a danger that NTIS' traditional customers would find less reason to come to it for their research needs. For that reason, we continue to believe that it is imperative that NTIS must (a) maintain a vigorous and proactive outreach and web-harvesting program to ensure that valuable research continues to be added to the collection, (b) continuously monitor how well its website and other marketing tools are working and bringing in new customers, and (c) seek new opportunities to provide its Federal clients with information dissemination services that enable them to meet the needs of their own constituents.

Federal agencies are under severe budgetary restraints and will continue to be so for the foreseeable future. This will affect their research and publication budgets that in turn will affect what NTIS can add to its collection. They will also be under pressure to outsource many of the functions they performed in-house. Such developments may present opportunities for NTIS to enhance its out-reach and revenues by offering warehousing and distribution services that agencies no longer wish to perform in-house or to offer web-based communication services, such as e-learning enhancements, preferably in conjunction with a joint venture partner.

II. MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003

7. ADDITIONAL INFORMATION

OTHER:

Section 3704b(d) of Title 15 of the United States Code requires the preparation of this annual audited financial report. In addition, Section 1(9) of Public Law 107-74 reinstated a requirement for an additional annual report that had been contained in former section 3704b(f)(3) but which has been eliminated by Section 3003(a)(1) of the Federal Reports Elimination and Sunset Act of 1995. The reinstated report was required to include the results of its most recent independent audit as well as certain additional information, which is included in this section so that the audited financial report may be used to meet the requirements of both sections.

- Summary of the Operations of the Service: see section II.2.
- Modernization Progress: NTIS has incorporated computer technology into every aspect of its operations, is scanning all new acquisitions into electronic image for permanent storage, and is taking full advantage of the World Wide Web as a means of advertising and delivering technical reports.
- Long -Term Modernization: NTIS' most pressing long-term need is to replace its order processing and associated systems. However, NTIS has decided to defer further action as not being in its best financial interest at this time.

In addition, in response to the events of September 11, 2001, all Federal agencies were required to develop Continuity of Operations Plans (COOPs) outlining how they will perform their essential functions in an emergency. The Director approved NTIS' plan in February 2002. The NTIS COOP is not intended to describe how NTIS will conduct normal operations if the Sills Building is damaged or is otherwise unavailable. Rather, the basic theory is to make sure that NTIS' basic building blocks are saved so that the organization can be reassembled at a future time as resources become available. This means making sure that NTIS saves its disaster file and Bibliographic Database, its IT systems, and its ability to interact with customers and take orders for future delivery. It was submitted to the Department and will be tested periodically. NTIS tested the plan in part in November 2002 and successfully participated in a Department-wide COOP test of interoperable communications in the summer of 2003. Another test is tentatively scheduled for May 2004.

Finally, Section 3704b-2(b) of Title 15 required the Secretary to include, as part of the annual report that was subsequently repealed and then reinstated, information on efforts to secure compliance with requirements that Federal agencies submit copies of their technical information products to NTIS. That provision has proven itself difficult to enforce now that many Federal agencies put their information products directly on their websites. It is difficult to work out arrangements with agencies, because information dissemination is very decentralized in today's environment. However, NTIS maintains an active program for crawling agency websites and harvesting appropriate documents that were not sent to us electronically.

III. FINANCIAL STATEMENTS **FISCAL YEAR 2003**

Limitations of Financial Statements

The financial statements that follow have been prepared to report the financial position and results of operations of NTIS, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)).

While the statements have been prepared from the books and records of NTIS in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated unless NTIS earnings are sufficient or without the enactment of an appropriation.

**U. S. Department Of Commerce
National Technical Information Service
BALANCE SHEETS
As Of September 30, 2003 and 2002
(In Thousands)**

	<u>FY2003</u>	Restated <u>FY2002</u> (Note 10)
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 38,350	\$ 39,140
Accounts Receivable, Net (Note 4)	74	224
Advances and Prepayments (Note 5)	<u>378</u>	<u>219</u>
Total Intragovernmental Assets	38,801	39,583
Cash And Other Monetary Assets (Note 3)	58	31
Accounts Receivable, Net (Note 4)	681	642
Inventory And Related Property, Net (Note 6)	267	365
General Property, Plant And Equipment, Net (Note 7)	405	443
Advances and Prepayments (Note 5)	47	47
Database (Note 5)	<u>5,865</u>	<u>5,874</u>
Total Assets	<u>\$ 46,125</u>	<u>\$ 46,985</u>
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable (Note 8 & 10)	\$ 5,838	\$ 5,420
Liability For Customer Deposits	15,788	12,551
Other Intragovernmental Liabilities	<u>112</u>	<u>123</u>
Total Intragovernmental Liabilities	21,738	18,094
Accounts Payable (Note 8)	1,621	2,018
Accrued Payroll and Annual Leave	1,257	1,243
Actuarial FECA Liability	612	726
Unearned Revenue	7	14
Liability For Customer Deposits	<u>5,794</u>	<u>9,805</u>
Total Liabilities	<u>\$ 31,030</u>	<u>\$ 31,900</u>
Commitments and Contingencies (Note 9)		
NET POSITION		
Cumulative Results Of Operations (Note 10)	\$ 15,095	\$ 15,085
Total Net Position	<u>\$ 15,095</u>	<u>\$ 15,085</u>
Total Liabilities And Net Position	<u>\$ 46,125</u>	<u>\$ 46,985</u>

The accompanying notes are an integral part of these statements

**U.S. Department of Commerce
National Technical Information Service
STATEMENTS OF BUDGETARY RESOURCES
For The Years Ended September 30, 2003 and 2002
(In Thousands)**

FY2003 Restated
FY2002
(Note 10)

Budgetary Resources:

Unobligated Balance:		
Brought Forward, October 1 (Note 10)	\$ 9,766	\$ 8,917
Spending Authority From Offsetting Collections (Gross)		
Earned:		
Collected	27,605	28,580
Receivable from Federal Sources	(151)	138
Total Budgetary Resources	<u>\$ 37,220</u>	<u>\$ 37,635</u>

Status Of Budgetary Resources:

Obligations Incurred:		
Reimbursable (Note 10)	\$ 27,525	\$ 27,869
Unobligated Balances -Available	9,695	9,766
Unobligated Balances -Not Available	-	-
Total Status Of Budgetary Resources	<u>\$ 37,220</u>	<u>\$ 37,635</u>

Relationship of Obligations To Outlays

Obligated Balance, Net As Of October 1	\$ 29,374	\$ 33,984
Obligated Balance, Net - End Of Period		
Accounts Receivable	(74)	(224)
Undelivered Orders	19,288	20,068
Accounts Payable	9,441	9,530
Obligated Balance, Net - End Of Period	<u>\$ 28,655</u>	<u>\$ 29,374</u>
Outlays:		
Disbursements	28,395	32,342
Collections	(27,605)	(28,580)
Total Outlays	<u>\$ 790</u>	<u>\$ 3,762</u>

The accompanying notes are an integral part of these statements

**U. S. Department Of Commerce
National Technical Information Service
STATEMENTS OF CHANGES IN NET POSITION
For The Years Ended September 30, 2003 and 2002
(In Thousands)**

	<u>FY2003</u>	Restated <u>FY2002</u> (Note 10)
Net Position-Beginning Of Year	\$ 15,085	\$ 14,169
Prior Period Adjustment (Note 10)	<u>-</u>	<u>(431)</u>
Beginning Balance Restated	\$ 15,085	\$ 13,738
Financing Sources (Other Than Exchange Revenues):		
Imputed Financing (Note 1)	<u>982</u>	<u>1,038</u>
Total Financing Sources	982	1,038
Net Cost Of Operations (Earned Revenues)	<u>972</u>	<u>(309)</u>
Net Position-End Of Year	<u>\$ 15,095</u>	<u>\$ 15,085</u>

The accompanying notes are an integral part of these statements

U. S. Department Of Commerce
National Technical Information Service
STATEMENTS OF NET COST
For The Years Ended September 30, 2003 and 2002
(In Thousands)

	<u>FY2003</u>	<u>FY2002</u>
Collect and Disseminate Technical Information		
Clearinghouse Program		
Intragovernmental	\$ 6,341	\$ 6,122
With The Public	<u>22,952</u>	<u>24,142</u>
Total	29,293	30,264
Less: Earned Revenues	<u>28,321</u>	<u>30,573</u>
Net Program Costs (Earned Revenues)	<u>\$ 972</u>	<u>\$ (309)</u>
 NET COST OF OPERATIONS	 <u>\$ 972</u>	 <u>\$ (309)</u>

The accompanying notes are an integral part of these statements

U. S. Department Of Commerce
National Technical Information Service
STATEMENTS OF FINANCING
For The Years Ended September 30, 2003 and 2002
(In Thousands)

FY2003 Restated
FY2002
(Note 10)

Resources Used to Finance Activities

Budgetary Resources Obligated

Obligations Incurred	\$ 27,525	\$ 27,869
Less: Spending Authority For Offsetting Collections And Adjustments	(27,454)	(28,718)
Change in AR Non-Govt	(23)	10
Write-offs	(17)	(34)
Change in Undeposited Collections	(27)	(8)
Change in Customer Deposit Accounts	(782)	(1,781)
Financing Imputed For Cost Subsidies	982	1,038
Total resources used to finance activities	\$ 204	\$ (1,624)

Resources Used to Finance Items not Part of the Net Cost of Operations

Change In Amount Of Goods, Services, And Benefits Ordered But Not Yet Received Or Provided	\$ 622	\$ 1,672
Inventory Purchases	(2,176)	(2,807)
Changes In Supplies/Equipment	(245)	(198)
Prior Period Adjustment (Note 10)	-	(431)
Data Base Capitalization	(2,626)	(2,544)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	\$ (4,425)	\$ (4,308)

Total Resources Used to Finance the Net Cost of Operations \$ (4,221) \$ (5,932)

Components of Net Cost of Operations that will not Require or Generate Resources

Components Not Requiring or Generating Resources

Costs Of Goods Sold	\$ 2,165	\$ 2,518
Depreciation And Amortization Expense	2,918	2,869
Increase in Obsolescence	110	223
Bad Debt Expense	1	12
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 5,193	\$ 5,623

Net Cost Of Operations \$ 972 \$ (309)

The accompanying notes are an integral part of these statements

**National Technical Information Service
Revolving Fund**

Notes to Financial Statements

September 30, 2003

NOTE 1. Summary of Significant Accounting Policies

Reporting Entity

The National Technical Information Service (NTIS) was established in 1945 by Executive Order 9568 of the Publications Board to collect and declassify World War II technical data for dissemination to industry. NTIS operates under the provisions of Title 15, U.S. Code (1151-1157) and the NTIS Act of 1988 (15 U.S.C. 3701) as an agency of the U.S. Department of Commerce. Its mission is to collect, process, market, and disseminate government-sponsored and foreign scientific, technical and business information; license federally owned patents and transfer other specialized technologies to enhance the U.S. economy; and assist other agencies with their information programs. NTIS funds its operations through the sale of its products and services, rather than through direct appropriations. Occasional appropriation support may be required for a substantial one-time outlay for Congressionally mandated new programs and requirements.

On October 6, 1992, legislation was passed authorizing the establishment of the NTIS Revolving Fund. Upon establishing the NTIS Revolving Fund, all receipts from the sale of products and services are deposited in this fund and all expenses, including capital expenditures, are paid from it.

The accompanying financial statements represent the financial position and financial activities of the National Technical Information Service Revolving Fund administered by NTIS. There were no intra-entity transactions and therefore no separate column is presented on the face of the financial statements.

Basis of Presentation

Under the authority of the Chief Financial Officers (CFO) Act of 1990, the General Accounting Office (GAO) participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendation.

Basis of Accounting

The financial statements of NTIS have been prepared from its accounting records in conformity with accounting principles generally accepted in the United States of America (GAAP) and the form and content for entity financial statements as specified in OMB Bulletin No. 01-09. GAAP for Federal agencies are standards prescribed by FASAB which has been designated the official accounting standards setting body for the Federal government by the American Institute of Certified Public Accountants.

Budgets and Budgetary Accounting

OMB annually apportions expenditure authority to NTIS based upon NTIS' estimate of sales of products and services. Typically, the Department of Commerce's (DoC) annual budget includes NTIS for informational purposes and Congressional oversight. Unobligated funds may be carried over into the next fiscal year.

Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, without regard to receipt or payment of cash, and expenses are recognized when goods or services are rendered. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Revenues and Other Financing Sources

Operating revenues result from sales of scientific and technical products and services to business, government, and educational institutions. Additional amounts are obtained through reimbursements for services performed for other federal agencies. Revenues are earned as goods or services are delivered or contract terms are met.

Fund Balance with Treasury and Cash on Hand

NTIS does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Except as restricted (Note 2), the Fund Balances with Treasury and Cash on Hand are funds that are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are for change-making purposes and are not material.

Inventories

Inventories consist primarily of technical documents held for sale to customers. Inventories held for sale are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out (FIFO) method; recorded values are adjusted to reflect the results of physical inventories; and a periodic allowance for obsolescence is expensed. See Note 6 for inventory composition. Expenses are recorded when the inventories are shipped or consumed.

Accounts Receivable

Accounts receivable result from the sale of NTIS products and services to the public and federal agencies. NTIS calculates its allowance for doubtful accounts based on historical collection data and, in some cases, specific account analysis. See Note 4.

Property and Equipment

Property and equipment consist of machinery and equipment, which are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. NTIS capitalizes equipment valued in excess of \$25 thousand with a useful life of two years or more.

Database

Other assets include the NTIS bibliographic database. The database is the result of NTIS' acquisition and processing of scientific and technical information products. Processing includes cataloguing, indexing, abstracting, and sorting by form and content deemed by NTIS to be responsive to customer demand. The result of this processing is the creation of a database of information that is used to prepare various products and services offered for sale to the public and to other federal agencies. Document registration, payroll, and computer input processing costs are capitalized as part of the database to reflect current additions and enhancements to the asset. Amortization is calculated using an accelerated method, which approximates anticipated sales volume.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as an advance to others or a prepaid charge, and recognized as expenditures/expenses when the goods and services are received.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by NTIS as the result of a transaction or event that has already occurred. All liabilities are covered by budgetary resources.

Accrued payroll and benefits reflect salaries and benefits earned but not paid as of year-end.

Customer deposits consist of cash that customers have remitted to fund future purchases of NTIS products and services.

Subscription escrow accounts are used to account for unearned revenue, or cash received prior to year-end, for subscription products to be shipped at a future date.

Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. This balance is fully funded.

Sick leave and other types of leave are expensed as taken and are considered non-vested.

Retirement Plans (CSRS and FERS)

NTIS does not report Civil Service Retirement System (CSRS) assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). The employee withholding rate during FY 2003 was 7.00% and the matching agency contribution was 8.51%. CSRS employees can also participate in the Thrift Savings Plan but there are no agency matching contributions.

The FERS employee withholding rate for FY 2003 was 0.8% and the agency contribution rate was 10.7%

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan (TSP) that automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For most employees hired since December 31, 1983, NTIS also contributes the employer's matching share for Social Security. Current payroll contributions for FERS employees are limited to 11% of basic pay per pay period and 6% for CSRS employees.

Pension and Other Retirement Benefits Accruals

Included in Personal Services & Benefits, in accordance with SFAS No. 5, *Accounting for Liabilities of the Federal Government*, the NTIS recognized an imputed financing source and corresponding expense to represent its share of the cost to the Federal government of providing pension and post-retirement health and life insurance benefits to all eligible NTIS employees.

	<u>2003</u>	<u>2002</u>
	(in Thousands)	
Civil Service Retirement System	\$ 348.8	\$ 481.7
Federal Employees Retirement System	28.9	.1
Federal Employees Health Benefits	602.4	553.9
Federal Employees Group Life Insurance	<u>1.8</u>	<u>1.8</u>
Total	<u>\$ 981.9</u>	<u>\$ 1,037.5</u>

Workers' Compensation – Future Workers' Compensation Benefits (Actuarial FECA Liability)

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

<u>2003</u>	<u>2002</u>
3.84% in year 1,	5.20% in year 1,
4.35% in year 2,	5.20% in year 2,
and thereafter	and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections are as follows:

<u>FY</u>	<u>COLA</u>	<u>CPIM</u>
2004	2.30%	3.21%
2005	2.00%	3.54%
2006	1.83%	3.64%
2007	1.97%	3.80%
2008+	2.17%	3.92%

The model's resulting projections were analyzed to ensure that the amounts were reliable. The analysis was based on two tests; (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles described above requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

Reclassifications

Certain FY2002 amounts have been reclassified to conform to the FY2003 presentation.

Note 2. Fund Balances With Treasury:
(In Thousands)

	<u>FY2003</u>			<u>FY2002</u>		
Fund Balances:	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>
Revolving Fund	\$ 16,049	\$ 22,301	\$ 38,350	\$ 16,189	\$ 22,951	\$ 39,140
Total Fund Balance	\$ 16,049	\$ 22,301	\$ 38,350	\$ 16,189	\$ 22,951	\$ 39,140

Status of Fund Balance with Treasury

Unobligated Balance Available	\$ 9,695	\$ 9,706
Unobligated Balance not yet Disbursed	28,655	29,434
Total	\$ 38,350	\$ 39,140
Funds For Operations	\$ 16,049	\$ 16,189
Funds Owed To Agencies For Which NTIS Collects Receivables-Brokerage Services	4,819	4,631
Funds Owed To Customers For Deposit Funds	17,482	18,320
Total Fund Balance	\$ 38,350	\$ 39,140

Note 3: Cash and Other Monetary Assets:
(In Thousands)

	<u>FY2003</u>	<u>FY2002</u>
Cash	<u>Entity Assets</u>	<u>Entity Assets</u>
Undeposited Collections	\$ 58	\$ 31
	\$ 58	\$ 31

Note 4. Accounts Receivable:
(In Thousands)

FY2003

Intragovernmental	<u>Receivables</u>	<u>Allowance</u>	<u>Net</u>
Accounts Receivable –Overdrawn Customer Deposit Accounts	\$ 54	\$ -	\$ 54
Billed Accounts Receivable	<u>20</u>	<u>-</u>	<u>20</u>
	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 74</u>

Governmental

Accounts Receivable –Overdrawn Customer Deposit Accounts	\$ 148	\$ (15)	\$ 133
Billed Accounts Receivable	428	(8)	420
Unbilled Accounts Receivable	<u>128</u>	<u>-</u>	<u>128</u>
	<u>\$ 704</u>	<u>\$ (23)</u>	<u>\$ 681</u>

FY 2003 Total	<u>\$ 778</u>	<u>\$ (23)</u>	<u>\$ 755</u>
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FY2002

Intragovernmental	<u>Receivables</u>	<u>Allowance</u>	<u>Net</u>
Accounts Receivable –Overdrawn Deposits	\$ 224	\$ -	\$ 224
	<u>\$ 224</u>	<u>\$ -</u>	<u>\$ 224</u>

Governmental

Accounts Receivable –Overdrawn Deposit Accounts	\$ 163	\$ (20)	\$ 143
Billed Accounts Receivable	338	(19)	319
Unbilled Accounts Receivable	<u>180</u>	<u>-</u>	<u>180</u>
	<u>\$ 681</u>	<u>\$ (39)</u>	<u>\$ 642</u>

FY 2002 Total	<u>\$ 905</u>	<u>\$ (39)</u>	<u>\$ 866</u>
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NCTIS does not reserve for Intragovernmental and Unbilled receivables since they are considered fully collectible.

The Allowance for Bad Debts for Governmental (Public) is based on 83% of the total invoices with an invoice date of 120 days and older.

The Allowance for Bad Debts – Overdrawn Deposits for both Intragovernmental and Public is equal to 20% of the total overdrawn deposit account balances.

Note 5. Advances and Prepayments:
(In Thousands)

	<u>FY2003</u>	<u>FY2002</u>
Other Entity Assets		
Intragovernmental		
Advances To Government Agencies	<u>\$ 378</u>	<u>\$ 219</u>
Public		
Advances To The Public	<u>\$ 47</u>	<u>\$ 47</u>

Other Information: Other assets include the NTIS bibliographic database. The database is the result of NTIS' acquisition and processing of scientific and technical information products. Processing includes cataloguing, indexing, abstracting, and sorting by form and content deemed by NTIS to be responsive to customer demand. The result of this processing is the creation of a database of information that is used to prepare various products and services offered for sale to the public and to other federal agencies.

The amortization method used for the database is the declining balance with 30% amortized the first year, 20% for the second year, and 10% over the remaining five years.

Registration, payroll, and computer input costs are capitalized as part of the database to reflect current additions and enhancements to the asset. Total costs added to the database in FY2003 were \$2.6 million.

The database consisted of the following:
(In Thousands)

	<u>FY2003</u>	<u>FY2002</u>
Capitalized Costs	\$ 43,941	\$ 41,315
Less: accumulated amortization	<u>(38,076)</u>	<u>(35,441)</u>
Total	<u>\$ 5,865</u>	<u>\$ 5,874</u>

For the year ended September, 2003 amortization expense was \$2.6 million.

NOTE 6. Inventory and Related Property:
(In Thousands)

	<u>FY2003</u>		
	<u>Inventory Amount</u>	<u>Allowance for Losses</u>	<u>Inventory Net</u>
Inventory Categories:			
Inventory Held For Sale	\$ 445	\$ (223)	\$ 222
Inventory Not Held For Sale			
Material and Goods For Own Use - Print Plant Supply	<u>45</u>	<u>-</u>	<u>45</u>
Subtotal	<u>45</u>	<u>-</u>	<u>45</u>
Total	<u>\$ 490</u>	<u>\$ (223)</u>	<u>\$ 268</u>
	<u>FY2002</u>		
	<u>Inventory Amount</u>	<u>Allowance for Losses</u>	<u>Inventory Net</u>
Inventory Categories:			
Inventory Held For Sale	\$ 617	\$ (305)	\$ 312
Inventory Not Held For Sale			
Material and Goods For Own Use - Print Plant Supply	<u>53</u>	<u>-</u>	<u>53</u>
Subtotal	<u>53</u>	<u>-</u>	<u>53</u>
Total	<u>\$ 670</u>	<u>\$ (305)</u>	<u>\$ 365</u>

A: September 30, 2003, inventory held for sale consisted of copies of scientific and technical reports and products in the gross amount of \$445 thousand.

Inventory Obsolescence is based on historical sales data and the actual inventory that is obsolete at the end of the reporting period.

Material and Goods for Own Use - Supply Inventory represents stockroom office supplies held for future distribution and consumption by NTIS offices. The valuation method used is First In - First Out (FIFO).

NOTE 7. Property, Plant and Equipment, Net:
(In Thousands)

FY2003

Fixed Assets

	Balance FY02	Purchases FY03	Reclass FY03	Disposals FY03	Balance FY03
Equipment	\$ 1,945	\$ 245	\$ -	(78)	\$ 2,112
Equipment Modernization	2,489	-	-	(83)	2,406
Print Plant Equipment	219	-	-	-	219
	<u>\$ 4,653</u>	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ (161)</u>	<u>\$ 4,737</u>

Accumulated Depreciation

	Balance FY02	Depreciation FY03	Reclass FY03	Disposals FY03	Balance FY03	Net Book Value	Depreciation Method*	Service Life**
Equipment	\$ 1,503	\$ 282	\$ -	\$ (78)	\$ 1,707	\$ 405	SL	2-5
Equipment Modernization	2,489	-	-	(83)	2,406	-	SL	2-5
Print Plant Equipment	219	-	-	-	219	-	SL	2-5
	<u>\$ 4,211</u>	<u>\$ 282</u>	<u>\$ -</u>	<u>\$ (161)</u>	<u>\$ 4,332</u>	<u>\$ 405</u>		

* Depreciation Method
** Range of Service Life:

SL= Straight Line
2-5= 2 to 5 years

FY2002

Fixed Assets

	Balance FY01	Purchases FY02	Reclass FY02	Disposals FY02	Balance FY02
Equipment	\$ 1,863	\$ 198	\$ -	\$ (116)	\$ 1,945
Equipment Modernization	2,551	-	-	(62)	2,489
Print Plant Equipment	219	-	-	-	219
	<u>\$ 4,633</u>	<u>\$ 198</u>	<u>\$ -</u>	<u>\$ (178)</u>	<u>\$ 4,653</u>

Accumulated Depreciation

	Balance FY01	Depreciation FY02	Reclass FY02	Disposals FY02	Balance FY02	Net Book Value	Depreciation Method*	Service Life**
Equipment	\$ 1,357	\$ 262	\$ -	\$ (116)	\$ 1,503	\$ 443	SL	2-5
Equipment Modernization	2,551	-	-	(62)	2,489	-	SL	2-5
Print Plant Equipment	217	2	-	-	219	-	SL	2-5
	<u>\$ 4,125</u>	<u>\$ 264</u>	<u>\$ -</u>	<u>\$ (178)</u>	<u>\$ 4,211</u>	<u>\$ 443</u>		

* Depreciation Method
** Range of Service Life:

SL= Straight Line
2-5= 2 to 5 years

NOTE 8. Accounts Payable:
(In Thousands)

As of September 30, 2003, accounts payable consisted of the following:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
Accounts Payable, Operations	\$ 1,022	\$ 1,618	\$ 2,640
Accounts Payable, Brokerage	<u>4,816</u>	<u>3</u>	<u>4,819</u>
Total	<u>\$ 5,838</u>	<u>\$ 1,621</u>	<u>\$ 7,459</u>

Of the intragovernmental accounts payable, approximately \$4.8 million represents amounts due under reimbursable agreements with the National Library of Medicine (NLM) for the year ended September 30, 2003 and related brokerage services (billing, collection, and financial management services) rendered.

As of September 30, 2002, accounts payable consisted of the following:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
Accounts Payable, Operations	\$ 793	\$ 2,014	\$ 2,807
Accounts Payable, Brokerage	<u>4,627</u>	<u>4</u>	<u>4,631</u>
Total	<u>\$ 5,420</u>	<u>\$ 2,018</u>	<u>\$ 7,438</u>

Of the intragovernmental accounts payable, approximately \$4.6 million represents amounts due under reimbursable agreements with the National Library of Medicine (NLM) for the year ended September 30, 2002 and related brokerage services (billing, collection, and financial management services) rendered.

NOTE 9. Commitments and Contingencies

Future Commitments

NTIS is committed to purchase goods and services ordered, but not yet received (undelivered orders) amounting to \$19.7 million as of September 30, 2003.

The land and buildings in which NTIS operates are provided through the General Services Administration's building delegation fund, and NTIS is charged rent intended to approximate commercial rental rates. Rent expense charged for office space for the years ended September 30, 2003 and 2002 was \$1.4 million and \$1.4 million, respectively.

Future Minimum Lease Payments Due:
Cancelable Operating Leases

	Total Building (In Thousands)
Fiscal Year 2004	\$ 1,556
Fiscal Year 2005	1,587
Fiscal Year 2006	1,618
Fiscal Year 2007	<u>1,649</u>
Total Future Minimum Lease Payments	<u>\$ 6,410</u>

NOTE 9. Commitments and Contingencies (continued)

Pending Claims

To the best of management's and the Department of Commerce's Office of General Counsel's knowledge, information and belief, there are no pending claims or threatened litigation, claims, or assessments or unasserted claims or adjustments that might have a material impact on the financial position of NTIS.

Apportionment Categories of Obligations Incurred

NTIS had Reimbursable Obligations for the years ended September 30, 2003 and 2002 in the amount of \$27.5 million and \$27.7 million, respectively.

NOTE 10. Restatement

(In Thousands)

The fiscal year 2002 statements include a \$431 prior period adjustment. This adjustment was required to correct for the U.S. General Services Administration's (GSA) failure to bill NTIS for Internet Protocol Services (IPS) provided in fiscal years 2000 (of \$464) and 2001 (of -\$33) by MCI.

The key balances on the FY2002 financial statements which have been adjusted to reflect this \$431 transaction (excluding totals and sub-total lines) are:

FY2002 Balance Sheet: Intragovernmental Liabilities - Accounts Payable increased.

FY2002 Balance Sheet: Net Position decreased.

FY2002 Statement of Budgetary Resources: Obligations Incurred (Reimbursable) increased and Unobligated Balances (Available) decreased.

NOTE 11. Gross Costs and Earned Revenue By Budget Functional Classification

(In Thousands)

NTIS' gross costs and earned revenues by budget functional classification are all included in the collect and disseminate technical information classification.

Collect and Disseminate Technical Information	<u>FY2003</u>	<u>FY2002</u>
Gross Cost	\$ 29,293	\$ 30,265
Earned Revenue	<u>(28,321)</u>	<u>(30,574)</u>
Net Cost	<u>\$ 972</u>	<u>\$ (309)</u>

IV. Required Supplemental Information #1

Fiscal Year 2003

(\$ in thousands)

	Year ended September 30,			
	FY 2003		FY 2002	
		<u>Revenue</u>		
Clearinghouse Program	\$28,321	97%	\$30,573	97%
Other Reported Items	<u>\$982</u>	3%	<u>\$1,037</u>	3%
TOTAL, NTIS REVENUE:	<u>\$29,303</u>	100%	<u>\$31,610</u>	100%
		<u>Cost</u>		
Clearinghouse Program	\$28,311	97%	\$29,227	97%
Other Reported Items	<u>\$982</u>	3%	<u>\$1,037</u>	3%
TOTAL, NTIS COST:	<u>\$29,293</u>	100%	<u>\$30,264</u>	100%
		<u>Net</u>		
Clearinghouse Program	\$10	100%	\$1,346	100%
Other Reported Items	<u>\$0</u>	0%	<u>\$0</u>	0%
TOTAL, NTIS	<u>\$10</u>	100%	<u>\$1,346</u>	100%

NOTE: The Statement of Net Cost, included in the financial statements, excludes revenue for FY 2003/FY 2002 (\$982K/\$1,038K) from an imputed financing source related to the cost of providing pension and other retirement benefits (refer to Note 1 to the Financial Statements for additional detail to this financing source). This revenue is included in "Other Reported Items" on the Statement of Changes in Net Position.

IV. Required Supplemental Information #2
Fiscal Year 2003

(\$ in thousands)

	Year ending September 30, FY 2003			Year ending September 30, FY 2002		
	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>	<u>Revenue</u>	<u>Cost</u>	<u>Income/ (Loss)</u>
<u>Clearinghouse Program</u>						
Announcement Products	\$1,210	\$3,193	(\$1,983)	\$988	\$3,358	(\$2,370)
Full Text Reports	3,387	4,609	(1,222)	4,601	5,116	(515)
Computer Products	5,228	4,559	669	5,431	4,585	846
Standing Order Products	2,060	1,346	714	1,731	1,174	557
Paper Subscriptions	511	839	(328)	623	858	(235)
Electronic Subscriptions	3,306	2,537	769	3,481	2,570	911
Miscellaneous Products	993	1,287	(294)	893	1,017	(124)
Clearinghouse Services	<u>11,626</u>	<u>9,941</u>	<u>1,685</u>	<u>12,825</u>	<u>10,549</u>	<u>2,276</u>
Subtotal Clearinghouse Program:	\$28,321	\$28,311	\$10	\$30,573	\$29,227	\$1,346
<u>Other Reported Items</u>						
Other Reported Items	<u>\$982</u>	<u>\$982</u>	<u>\$0</u>	<u>\$1,037</u>	<u>\$1,037</u>	<u>\$0</u>
Total NTIS:	\$29,303	\$29,293	\$10	\$31,610	\$30,264	\$1,346

NOTE: The Statement of Net Cost, included in the financial statements, excludes revenue for FY 2003/FY 2002 (\$982K/\$1,038K) from an imputed financing source related to the cost of providing pension and other retirement benefits (refer to Note 1 to the Financial Statements for additional detail to this financing source). This revenue is included in "Other Reported Items" on the Statement of Changes in Net Position.

IV. Required Supplemental Information #3
Fiscal Year 2003
(\$ in thousands)

Intra-governmental assets:		FY 2003				FY 2002
		Fund Balance With Treasury	Accounts Receivable, Net	Advances and Prepayments	Total	Total
Trading Partner						
03	Library of Congress	\$ -	\$ 2	\$ 5	\$ 8	\$ 7
04	Government Printing Office	-	-	1	1	2
13	Department of Commerce	-	-	250	250	121
14	Department of Interior	-	13	-	13	13
16	Department of Labor	-	-	-	-	3
17	Department of Navy	-	0	-	0	0
18	United States Postal	-	-	121	121	90
20	Department of Treasury	38,350	-	-	38,350	39,145
21	Department of the Army	-	2	-	2	57
36	Department of Veterans Affairs	-	1	-	1	-
56	Central Intelligence Agency	-	1	-	1	-
57	Department of the Air Force	-	-	-	-	3
75	Department of Health and Human Svcs	-	-	-	-	1
95	Independent Agencies	-	20	-	20	-
97	Secretary of Defense	-	33	-	33	141
TOTAL		<u>\$ 38,350</u>	<u>\$ 74</u>	<u>\$ 378</u>	<u>\$ 38,801</u>	<u>\$ 39,583</u>

IV. Required Supplemental Information #4
Fiscal Year 2003
(\$ in thousands)

Intra-governmental liabilities:		FY 2003				FY 2002
		Accounts Payable	Other Intragovernmental Liabilities	Customer Deposits	Total	Total
Trading Partner						
01	Architect of the Capitol	\$ -	\$ -	\$ (1)	\$ (1)	\$ (1)
03	Library of Congress	-	-	(35)	(35)	(35)
04	Government Printing Office	(101)	-	-	(101)	(158)
05	General Accounting Office	-	-	(0)	(0)	(5)
08	Congressional Budget Office	-	-	(1)	(1)	(1)
11	Exec Off of the President	-	-	(28)	(28)	(28)
12	Department of Agriculture	(9)	-	(1,513)	(1,523)	(1,335)
13	Department of Commerce	(331)	-	(188)	(519)	(315)
14	Department of Interior	-	-	(64)	(64)	(71)
15	Department of Justice	-	-	(18)	(18)	(21)
16	Department of Labor	(40)	(58)	(166)	(264)	(201)
17	Department of Navy	-	-	(1,886)	(1,886)	(1,458)
18	United States Postal Service	(0)	-	(0)	(1)	(1)
19	Department of State	-	-	(20)	(20)	(20)
20	Department of Treasury	(1)	(4)	(2,990)	(2,994)	(3,032)
21	Department of the Army	(18)	-	(475)	(493)	(522)
24	OPM	(3)	(41)	(35)	(79)	(80)
27	FCC	-	-	-	-	(1)
28	Social Security Administration	(12)	-	(856)	(867)	(1,038)
29	Federal Trade Commission	-	-	(0)	(0)	(1)
31	Nuclear Regulatory Commission	-	-	(47)	(47)	(44)
33	Smithsonian	-	-	(2)	(2)	(2)
36	Department of Veterans Affairs	-	-	(74)	(74)	(78)
45	US Equal Employment Comm	-	-	-	-	(0)
47	General Services Administration	(466)	-	(220)	(686)	(565)
49	National Science Foundation	-	-	(1)	(1)	(98)
56	Central Intelligence Agency	(54)	-	(358)	(413)	(371)
57	Department of Air Force	-	-	(325)	(325)	(313)
58	FEMA	-	-	(11)	(11)	(11)
61	Consumer Product Safety Comm	-	-	(2)	(2)	(2)
65	Federal Maritime Comm	-	-	(0)	(0)	(0)
68	Environmental Protection Agency	(6)	-	(656)	(662)	(688)
69	Department of Transportation	-	-	(172)	(172)	(119)
70	Homeland Security	-	-	(7)	(7)	-
71	Overseas Private Investment	-	-	(1)	(1)	(1)
72	AID	-	-	(5)	(5)	(6)
73	Small Business Administration	-	-	(1)	(1)	(1)
75	Department of Health & Hum Servs	(4,789)	-	(4,695)	(9,484)	(6,245)
80	NASA	-	-	(47)	(47)	(56)
84	Armed Forces Retirement Home	-	-	(0)	(0)	(0)
86	HUD	-	-	(187)	(187)	(194)
88	National Archives	-	-	(0)	(0)	(0)
89	Department of Energy	-	-	(43)	(43)	(40)
91	Department of Education	-	-	(139)	(139)	(139)
95	Board of Governors	(5)	-	-	(5)	(5)
95	USIA	-	-	(41)	(41)	(41)
96	US Army Corp of Engineers	-	-	(36)	(36)	(37)
97	Office of Secretary of Defense	(1)	-	(444)	(444)	(712)
99	Treasury General Fund	-	(9)	-	(9)	-
TOTAL		\$ (5,838)	\$ (112)	\$ (15,788)	\$ (21,738)	\$ (18,094)