

**Office of Inspector General  
Corporation for National and  
Community Service**

**AUDIT OF THE  
CORPORATION FOR NATIONAL AND  
COMMUNITY SERVICE'S  
FISCAL YEAR 2012 FINANCIAL STATEMENTS**

**Audit Report Number 13-01**



Prepared by:

Kearney & Company  
1701 Duke Street, Suite 500  
Alexandria, Virginia 22314

This report was issued to Corporation management on November 16, 2012. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 16, 2013, and complete its corrective actions by November 18, 2013. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 16, 2012

TO: Wendy Spencer  
Chief Executive Officer

FROM: Stuart Axenfeld *Stuart Axenfeld*  
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's  
Fiscal Year 2012 Financial Statements, OIG Audit Report 13-01

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) to audit the consolidated financial statements of the Corporation for National and Community Service (Corporation) as of September 30, 2012 and 2011, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

In its audit, Kearney found

- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- One material weakness in the Corporation's internal controls;
- No instances of noncompliance with relevant laws and regulations.

Kearney is responsible for the attached auditor's report, dated November 16, 2012, and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the Corporation's financial statements or Kearney's conclusions about the effectiveness of internal controls or compliance with laws and regulations.

Attachment

cc: Asim Mishra, Chief of Staff  
Robert Velasco II, Chief Operating Officer  
David Rebich, Chief Financial Officer  
Philip Clark, Chief Information Officer  
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management Center  
Douglas Hilton, Director, Office of Accountability and Oversight  
David Zavada, Engagement Partner, Kearney & Company

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Inspector General of the Corporation for National and Community Service

We have audited the accompanying consolidated statements of financial position of the Corporation for National and Community Service (the Corporation) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net position, the consolidated statements of cash flows, and the combined statements of budgetary resources (SBR) (hereinafter referred to as the "financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2012 and 2011, and its net cost of operations, changes in net position, cash flows, and changes in budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A 2004 Executive Order, entitled "National and Community Service Programs" (E.O. 13331), requires a statement of assurance in the Corporation's Management Representation Letter by the Chief Executive Officer and Chief Financial Officer that its financial statements, including the SBR, are accurate and reliable. The Corporation has interpreted this requirement to include presenting the SBR as a principal financial statement. The Corporation's SBR is prepared in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the fiscal year 2012 financial statements, the Corporation reclassified certain amounts in the prior year's combined SBR to conform to the current year's re-aligned presentation of the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*. These reclassifications had no effect on the previously reported SBR balances.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Accompanying Information (OAI) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except as described below, such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it as part of the audits of the financial statements taken as a whole. Certain information from the Corporation's National Service Trust Fund special purpose schedules of financial position and the related special purpose schedules of operations and changes in net position, Trust obligations, and Trust budgetary resources (hereinafter referred to as the "Trust Schedules"), as of September 30, 2012, is presented in OAI. In accordance with the requirements of the National and Community Service Act of 1990, we performed a separate audit of the Trust Schedules and issued a report dated November 16, 2012.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 16, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of the Corporation's compliance with certain provisions of laws, regulations, and other matters for the year ended September 30, 2012. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance as well as the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 16, 2012

**Corporation for  
National & Community Service  
Fiscal Year 2012 and 2011  
Consolidated Financial Statements**

## **CONSOLIDATED FINANCIAL STATEMENTS**

CNCS' consolidated financial statements report its financial position, results of operations, cash flows, and budgetary resources, as required by the Government Corporation Control Act (Act) and Executive Order 13331, National and Community Service Programs. The Government Corporation Control Act requires that government corporations submit an annual report including the corporation's financial statements to the Congress. As specified in the Act, the principal financial statements of the Corporation are the:

Statement of Financial Position (balance sheet), which reports the status of CNCS assets, liabilities, and net position;

Statement of Operations and Changes in Net Position (income statement), which reports CNCS' revenues and expenses for the year and the changes in net position that occurred during the year; and

Statement of Cash Flows, which shows how changes in CNCS' financial position and results affected its cash (Fund Balance with Treasury), and breaks the analysis down according to operating, investing, and financing activities.

In addition, under the requirements of Executive Order 13331, CNCS prepares a Statement of Budgetary Resources (SBR) as a principal financial statement. The SBR provides information about the budgetary resources made available to the Corporation as well as the status of those resources at the end of the fiscal year.

The Corporation's financial statements present comparative information for fiscal 2012 and 2011. For fiscal 2012, CNCS' financial statements, for the twelfth consecutive year, received an unqualified opinion. This opinion recognizes that CNCS' financial statements are fairly presented, in all material respects, and in conformity with generally accepted accounting principles.

### **Limitations of the Financial Statements**

The principal financial statements have been prepared in compliance with the reporting requirements described above. CNCS' financial statements published herein are in addition to the financial reports it uses 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 without legislation that provides the resources to do so.

**Corporation for National and Community Service**  
**Consolidated Statements of Financial Position**  
**as of September 30**

*(dollars in thousands)*

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Fund Balance with Treasury <i>(Note 2)</i>	\$ 965,928	\$ 942,870
Trust Investments and Related Receivables <i>(Note 3)</i>	638,565	605,661
Advances to Others	57,298	64,942
Accounts Receivable, Net <i>(Note 4)</i>	8,483	7,607
Property and Equipment, Net <i>(Note 5)</i>	1,610	926
<b>Total Assets</b>	<b><u>\$ 1,671,884</u></b>	<b><u>\$ 1,622,006</u></b>
<b>LIABILITIES</b>		
Trust Service Award Liability <i>(Note 6)</i>	\$ 447,191	\$ 410,261
Grants Payable	100,791	115,197
Accounts Payable	2,860	3,701
Actuarial FECA Liability <i>(Note 8)</i>	9,783	9,092
Advances from Others	33,696	67
Accrued Annual Leave	4,140	4,121
Other Liabilities	14,220	10,348
<b>Total Liabilities</b>	<b><u>612,681</u></b>	<b><u>552,787</u></b>
Contingencies <i>(Note 14)</i>		
<b>NET POSITION (Note 9)</b>	<b><u>1,059,203</u></b>	<b><u>1,069,219</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,671,884</u></b>	<b><u>\$ 1,622,006</u></b>

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

**Corporation for National and Community Service**  
**Consolidated Statements of Operations and Changes in Net Position**  
**for the Periods Ended September 30**

*(dollars in thousands)*

<b>REVENUE</b>	<b>2012</b>	<b>2011</b>
Appropriated Capital Used	\$ 824,684	\$ 883,872
Appropriations Received by the National Service Trust <i>(Note 10)</i>	211,916	201,200
Interest	4,434	4,669
Revenue from Services Provided	18,834	12,049
Other	<u>13,953</u>	<u>11,839</u>
<b>Total Revenue</b>	<b>1,073,821</b>	<b>1,113,629</b>
<b>EXPENSES</b>		
AmeriCorps	792,475	807,960
SeniorCorps	222,315	237,348
Learn and Serve America	17,801	33,261
Innovation, Demonstration and Assistance Activities	34,748	11,464
Office of the Inspector General	<u>5,241</u>	<u>8,001</u>
<b>Total Expenses <i>(Note 11)</i></b>	<b>1,072,580</b>	<b>1,098,034</b>
<b>Net of Revenue Over Expenses</b>	<b>\$ <u>1,241</u></b>	<b>\$ <u>15,595</u></b>
<b>NET POSITION</b>		
Net of Revenue over Expenses	\$ 1,241	\$ 15,595
Increase/(Decrease) in Unexpended Appropriations, Net <i>(Note 13)</i>	<u>(11,257)</u>	<u>(58,992)</u>
Increase/(Decrease) in Net Position, Net	(10,016)	(43,397)
Net Position, Beginning Balance	<u>1,069,219</u>	<u>1,112,616</u>
<b>Net Position, Ending Balance <i>(Note 9)</i></b>	<b>\$ <u>1,059,203</u></b>	<b>\$ <u>1,069,219</u></b>

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

**Corporation for National and Community Service**  
**Consolidated Statements of Cash Flows**  
**for the Periods Ended September 30**  
*(dollars in thousands)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2012</b>	<b>2011</b>
Net of Revenue over Expenses	\$ 1,241	\$ 15,595
Adjustments Affecting Cash Flow:		
Depreciation, Amortization, and Loss on Disposition of Assets	88	203
Amortization of Premium/Discount on Investments	(2,811)	1,137
Appropriated Capital Used	(824,684)	(883,872)
Appropriations Received in Trust	(211,916)	(201,200)
Decrease/(Increase) in Accounts Receivable	(876)	(3,824)
Decrease/(Increase) in Interest Receivable	385	299
Decrease/(Increase) in Advances to Others	7,644	17,698
Increase/(Decrease) in Accounts Payable and Other Liabilities	3,031	(3,676)
Increase/(Decrease) in Advances from Others	33,629	-
Increase/(Decrease) in FECA and Annual Leave Liabilities	710	(3,042)
Increase/(Decrease) in Trust Liability	36,930	30,383
Increase/(Decrease) in Grants Payable	(14,406)	(9,417)
Total Adjustments	<u>(972,277)</u>	<u>(1,055,311)</u>
<b>Net Cash Provided/(Used) by Operating Activities</b>	<b><u>(971,035)</u></b>	<b><u>(1,039,716)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of Securities	831,264	749,891
Purchase of Assets	(772)	-
Purchase of Securities	(861,742)	(791,793)
<b>Net Cash Provided/(Used) in Investing Activities</b>	<b><u>(31,250)</u></b>	<b><u>(41,902)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Appropriations Received, Net of Trust	1,050,870	1,077,733
Rescissions and Cancellations	(25,527)	(51,653)
<b>Net Cash Provided by Financing Activities</b>	<b><u>1,025,343</u></b>	<b><u>1,026,080</u></b>
<b>Net Increase/(Decrease) in Fund Balance with Treasury</b>	<b>23,058</b>	<b>(55,538)</b>
<b>Fund Balance with Treasury, Beginning</b>	<b><u>942,870</u></b>	<b><u>998,408</u></b>
<b>Fund Balance with Treasury, Ending</b>	<b><u>\$ 965,928</u></b>	<b><u>\$ 942,870</u></b>

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

**Corporation for National and Community Service  
Combined Statements of Budgetary Resources  
for the Periods Ended September 30**

*(dollars in thousands)*

<b>BUDGETARY RESOURCES</b>	<b>2012</b>	<b>2011</b>
Unobligated balance, brought forward, October 1	\$ 156,728	\$ 155,307
Recoveries of prior year unpaid obligations	28,175	53,606
Cancelled Authority	(23,541)	(49,507)
Refunds and Recoveries temporarily precluded from obligations (special and trust funds) (-)	<u>(5)</u>	<u>-</u>
Unobligated balance from prior year budget authority, net	161,357	159,406
Budget Authority		
Appropriation Discretionary	1,050,870	1,077,733
Appropriation (special or trust fund)	212,122	201,529
Permanent Reduction - New Budget Authority	<u>(1,986)</u>	<u>(2,146)</u>
Appropriation Discretionary (total)	1,261,006	1,277,116
Appropriation Mandatory (special or trust fund)	<u>3,856</u>	<u>6,818</u>
Appropriations (discretionary and mandatory)	1,264,862	1,283,934
Spending authority from offsetting collections		
Collected	54,980	12,169
Change in uncollected customer payments from Federal sources )	(433)	540
Spending authority from offsetting collections (total)	<u>54,547</u>	<u>12,709</u>
<b>Total budgetary resources</b>	<b><u>\$ 1,480,766</u></b>	<b><u>\$ 1,456,049</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligation Incurred		
Direct	1,255,712	\$ 1,288,240
Reimbursable	<u>19,949</u>	<u>\$ 11,081</u>
Obligation incurred (total)	1,275,661	1,299,321
Unobligated balance, end of year		
Apportioned	35,030	70,623
Unapportioned	<u>170,075</u>	<u>86,105</u>
Total unobligated balance, end of year	205,105	156,728
<b>Total budgetary resources</b>	<b><u>\$ 1,480,766</u></b>	<b><u>\$ 1,456,049</u></b>

*(Continued)*

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

**Corporation for National and Community Service  
Combined Statements of Budgetary Resources  
for the Periods Ended September 30**

*(dollars in thousands)*

*(Continued)*

	<b>2012</b>	<b>2011</b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Unpaid obligations, brought forward, October 1	\$ 1,387,883	\$ 1,400,061
Uncollected customer payments from Federal sources, brought forward, October 1	<u>(539)</u>	<u>-</u>
<b>Obligated balance, start of year (net)</b>	<b>1,387,344</b>	<b>1,400,061</b>
Obligations incurred	1,275,661	1,299,321
Outlays (gross) (-)	(1,241,372)	(1,257,893)
Change in uncollected customer payments from Federal sources	433	(540)
Recoveries of prior year unpaid obligations, actual	<u>(28,175)</u>	<u>(53,606)</u>
<b>Obligated balance, end of period</b>	<b><u>\$ 1,393,891</u></b>	<b><u>\$ 1,387,343</u></b>
Obligated balance, net, end of period:		
Unpaid obligations	\$ 1,393,997	1,387,883
Uncollected customer payments from Federal sources	<u>(106)</u>	<u>(540)</u>
<b>Obligated balance, end of period</b>	<b><u>\$ 1,393,891</u></b>	<b><u>\$ 1,387,343</u></b>
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Budget authority, gross (discretionary and mandatory)	\$ 1,319,409	<b>1,296,643</b>
Actual offsetting collections	(54,980)	(12,169)
Change in uncollected customer payments from Federal sources	433	(540)
<b>Budget authority, net (discretionary and mandatory)</b>	<b><u>1,264,862</u></b>	<b><u>1,283,934</u></b>
Outlays, gross (discretionary and mandatory)	1,241,372	1,257,893
Actual offsetting collections	<u>(54,980)</u>	<u>(12,169)</u>
<b>Outlays, net (discretionary and mandatory)</b>	<b>1,186,392</b>	<b>1,245,724</b>
Distributed offsetting receipts	<u>(213,058)</u>	<u>(202,076)</u>
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b><u>\$ 973,334</u></b>	<b><u>\$ 1,043,648</u></b>

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. REPORTING ENTITY**

The Corporation for National and Community Service (Corporation) was created by the National and Community Service Trust Act of 1993 (Public Law 103-82). The Corporation's mission is to improve lives, strengthen communities, and foster civic engagement through service and volunteering. To meet its mission, the Corporation provides grants and other assistance to States, local municipalities, and not-for-profit organizations to help communities meet critical challenges in the areas of education, healthy futures, environmental stewardship, economic opportunity, disaster services, and assisting veterans and military families through volunteer service. The Corporation's major programs are:

**Senior Corps.** The Senior Corps offers a network of programs that tap the rich experience, skills and talents of older citizens to meet community challenges. Senior Corps comprises the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Programs.

**AmeriCorps.** AmeriCorps provides opportunities for Americans to make an ongoing, intensive commitment to service through the following programs:

- *State, National, Tribes, and Territories* (State and National) offers grants supporting a broad range of local service programs that engage thousands of Americans in intensive service to meet critical community needs;
- *Volunteers in Service to America* (VISTA) helps community organizations and public agencies create and expand programs that build capacity and ultimately bring low-income individuals and communities out of poverty; and
- *National Civilian Community Corps* (NCCC) strengthens communities while developing leaders through direct, team-based national and community service.

**Learn and Serve America.** Learn and Serve America supports programs in schools, colleges, and community-based organizations that link community service to educational objectives.

The Corporation for the most part administered its programs in fiscal year 2012 from the following trust, gift and appropriated funds:

#### ***Trust and Gift Funds:***

- *National Service Trust (the Trust)*, from which the Corporation provided education awards and interest forbearance for volunteers under the AmeriCorps State and National; NCCC; and VISTA programs.
- *Gifts and Contributions*, into which the Corporation deposited gifts and contributions from individuals and organizations for use in furthering the Corporation's goals.

#### ***Appropriated Funds:***

- *Operating Expenses*, from which the Corporation funded the Senior Corps, AmeriCorps, Learn and Serve America and other program activity.
- *Salaries and Expenses*, from which the Corporation funded its general administrative expenses.
- *Office of Inspector General*, from which the Corporation funded the expenses of the OIG.
- *VISTA Advance Payment Revolving Fund*, from which the Corporation paid the living allowances for VISTA members enrolled under cost share agreements with sponsoring organizations. The Corporation is reimbursed for these costs by the sponsoring organization. Despite the account title, the VISTA Advance Payment Revolving Fund is not a revolving fund, but rather a general fund expenditure account.

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act included funding for the use of the Corporation to support an expansion of the AmeriCorps State and National and VISTA programs. As a result of the passage of the Recovery Act, three additional appropriated funds were established:

- *Operating Expenses, Recovery Act*, from which the Corporation funded the increased AmeriCorps State and National and VISTA membership as a result of the Recovery Act.
- *Salaries and Expenses, Recovery Act*, which funded the Corporation's expenses to improve IT systems and administer the increased AmeriCorps State and National and VISTA membership.
- *Office of Inspector General, Recovery Act*, from which the Corporation funded the expenses of the OIG's Recovery Act oversight responsibilities.

### ***B. BASIS OF ACCOUNTING***

The accompanying financial Statements include all funds administered by the Corporation, as delineated in Note 1A – Reporting Entity. They include the Corporation's activities related to providing grants and other assistance to eligible states, local governments, and not-for-profit organizations as well as education awards to eligible national service participants. All significant inter-entity transactions and balances are eliminated in consolidation.

### ***C. FINANCIAL STATEMENT PRESENTATION AND CONSOLIDATION POLICY***

The accompanying financial statements report the Corporation's financial position, results of operations, and cash flows, as required by the Government Corporation Control Act (GCCA). As required by GCCA, the principal financial statements of the Corporation are the:

- Statement of Financial Position, which reports the status of Corporation assets, liabilities, and net position;
- Statement of Operations and Changes in Net Position, which reports the Corporation's revenues and expenses for the year and the changes in net position that occurred during the year; and
- Statement of Cash Flows, which shows how changes in the Corporation's financial position and results affected its cash (Fund Balance with Treasury), and breaks the analysis down according to operating, investing, and financing activities.

The financial statements are presented in accordance with the accounting principles generally accepted in the United States of America (GAAP), as applicable to Federal government corporations. The Federal Accounting Standards Advisory Board (FASAB) is the standard setting body for the Federal government. Statement of Federal Financial Accounting Standards Number 34 (SFFAS 34) provides that financial statements prepared by certain government corporations in conformity with the accounting standards issued by the Financial Accounting Standards Board (FASB) are regarded as being in conformity with GAAP. As provided by SFFAS 34, where there is no standard issued by FASB applicable to the Federal corporation the financial statements are presented in accordance with the accounting standards issued by FASAB.

In addition, under Executive Order 13331, National and Community Service Programs, the Corporation must prepare a Combined Statement of Budgetary Resources as a principal statement. The accompanying Combined Statements of Budgetary Resources have been prepared in accordance with GAAP, as prescribed by FASAB.

The Corporation's consolidation policy requires the consolidation of all funds administered by the Corporation, as delineated in Note 1A – Reporting Entity.

#### ***D. BUDGETS AND BUDGETARY ACCOUNTING***

The activities of the Corporation are primarily funded through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriation Act. The Corporation's accounting structure reflects both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of Federal funds.

#### ***E. ASSET AND LIABILITY VALUATION***

The Corporation values its investments at carrying value and discloses fair value. As of September 30, 2011, the carrying amounts of Fund Balance with Treasury, Accounts Receivable, Advances to Others, Accrued Interest Receivable, Accounts Payable and Other Liabilities approximate their fair value.

#### ***F. FUND BALANCE WITH TREASURY***

The Corporation considers Fund Balance with Treasury (FBWT) to represent cash and cash equivalents. It is the Corporation's cash accounts with the Department of the Treasury (the Treasury). The Treasury processes cash receipts and disbursements on behalf of the Corporation and the Corporation's accounting records are reconciled with those of the Treasury on a regular basis. The Corporation's FBWT includes all of its appropriated and trust funds.

The FBWT maintained in the National Service Trust is restricted to specific purposes, such as paying service awards earned by eligible participants, and are not available for use in the current operations of the Corporation. In addition, the majority of the funds received from individuals and organizations for deposit in the Gifts and Contributions fund are restricted for particular uses, such as service projects.

#### ***G. INVESTMENTS AND RELATED RECEIVABLES***

By law, the Corporation may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. These Treasury securities are referred to as "market-based," since they mirror actual Treasury securities sold on the open market. They consist of Treasury notes, bonds, bills and one-day certificates.

Since they are expected to be held-to-maturity, the Corporation's investments are valued at cost and adjusted for the amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, using the effective interest method. Interest receivable represents amounts earned, but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment up to the date the security is purchased by the Corporation. Such interest, if any, at year-end is included in the interest receivable balance.

#### ***H. ADVANCES TO OTHERS***

The Corporation advances funds to non-federal entities, primarily in response to grantee drawdown requests, to facilitate their authorized service activities. The cash payments to grantees, in excess of amounts appropriately expended under the terms of the grant agreements, are accounted for as advances. At the end of the fiscal year, the total amount advanced to grantees is compared with the total Corporation-funded amount of grant expenses properly incurred by the grantees. Grantee expenses are determined from reports submitted by the grantees. For those grantees with advances exceeding expenses, the aggregate difference is reported as the advance account balance.

### ***I. ACCOUNTS RECEIVABLE***

Accounts receivable represents amounts due to the Corporation primarily under Federal and non-Federal reimbursable agreements, grantee audit resolution determinations, and outstanding travel advances due from employees. An allowance for doubtful accounts is established for reporting purposes based on past experience.

### ***J. PROPERTY AND EQUIPMENT***

Property and Equipment is stated at full cost, including all costs related to acquisition, delivery, and installation, less accumulated depreciation (or amortization). Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred. The Corporation's general policy is to capitalize Property and Equipment if the initial acquisition price is \$50 thousand or more. Property and equipment with an estimated useful life that extends beyond the year of acquisition is capitalized at historical cost and is depreciated (or amortized) on a straight-line basis over estimated useful lives ranging from two to 10 years, using the half-year convention.

### ***K. TRUST SERVICE AWARD LIABILITY***

The Trust Service Award Liability represents unpaid earned, and expected to be earned, education awards and eligible student loan interest forbearance costs, which are expected to be used. These amounts relate to participants who have completed service or are currently enrolled in the program and are expected to earn an award, based on the Corporation's historical experience.

### ***L. GRANTS PAYABLE***

The Corporation awards grants to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, at the time they are awarded. Although most grantees request funds prior to incurring expenses, some incur expenditures prior to initiating a request for disbursement, based on the nature of the expenditures. At the end of the fiscal year, the Corporation computes and reports an estimate of the amount of unreimbursed grantee expenses as grants payable. This accrual is based on an analysis of the amounts actually disbursed to grantees in the third quarter.

### ***M. ACCOUNTS PAYABLE***

The Corporation records as liabilities all amounts that are likely to be paid as a direct result of a transaction or event that has already occurred. Accounts payable represents amounts due to external entities for goods and services received by the Corporation, but not paid for at the end of the fiscal year.

### ***N. ACTUARIAL FECA LIABILITY***

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees, NCCC and VISTA members injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Corporation employees and members under FECA are determined and paid by the Department of Labor (DOL) and later billed to the Corporation. The Corporation's actuarial liability for workers' compensation includes costs incurred, but unbilled as of year-end, as calculated by DOL. The Corporation reimburses DOL for FECA claims out of current appropriations upon receipt of a bill from DOL.

## ***O. OTHER LIABILITIES***

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits and VISTA stipends. Also included as other liabilities is the amount of claims for benefits for Corporation employees under FECA that have been paid by DOL and billed to the Corporation but have not yet been reimbursed to DOL and imputed costs for future retirement and health care benefits as determined by an Office of Personnel Management calculation.

## ***P. ACCRUED ANNUAL LEAVE***

Annual leave is accrued as a liability based on amounts earned but not used as of the fiscal year-end. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates and leave balances. Annual leave is funded from current appropriations when used. As unused annual leave is used in the future, financing will be obtained from appropriations current at that time. Sick leave and other types of non-vested leave are also expensed when used.

## ***Q. ADVANCES FROM OTHERS***

Advances from others consist of advances from other Federal agencies and the public related to interagency and cost share agreements into which the Corporation entered to provide services.

## ***R. NET POSITION***

Net Position represents Net Assets. It is comprised of the Corporation's unexpended appropriations and its cumulative results of operations. Unexpended appropriations reflect the balance of appropriated authority granted to the Corporation against which no outlays have been made. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

## ***S. REVENUE RECOGNITION***

*Appropriated Capital Used.* The Corporation recognizes its use of appropriated capital as revenue at the time it is expended or accrued to pay program or administrative expenses. Appropriations expended for property and equipment are recognized as used when the property is purchased. Appropriated capital not expended within five fiscal years after it became available for obligation is cancelled. Unpaid obligations recorded against cancelled appropriated capital are paid from currently available appropriated funds as payments become due. Appropriations received for the Corporation's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education service award purposes.

*Interest on Investments.* Interest income is recognized when earned. Treasury notes and bonds pay interest semi-annually, based on the stated rate of interest. Interest on Treasury bills is paid at maturity. Interest income is adjusted by amortization of premiums and discounts using the effective interest method.

*Revenue from Services Provided.* The Corporation also receives income from reimbursable service agreements that is recorded as revenue from services provided. Revenue from services provided is recognized when earned, i.e., goods have been delivered or services rendered.

*Gifts and Donations.* Revenue is recognized at the time gifts and donations are received and deposited in the Treasury to the credit of the Gifts and Contributions Fund.

## ***T. RETIREMENT BENEFITS***

The Corporation's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, elected to join FERS and Social Security or remained in the CSRS.

For employees covered by CSRS, the Corporation contributes 7.0 percent of their basic pay. For those employees covered by FERS, the Corporation contributes 11.2 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

## ***U. INCOME TAXES***

As a Federal entity, the Corporation is exempt from all income taxes imposed by any governing body, Federal, State, commonwealth, local, or foreign government.

## ***V. USE OF ESTIMATES***

The preparation of financial statements in accordance with GAAP requires the Corporation to make estimates and assumptions about future events. These estimates and assumptions affect the amounts reported in the Corporation's financial statements and accompanying notes. The Corporation evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that it believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances warrant. As future events and their effects cannot be determined with certainty, actual results could differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the liability for service awards, grants payable, and grant advances.

## ***W. RECLASSIFICATIONS***

Certain prior year amounts have been reclassified to conform to current year presentation and better reflect the Corporation's operations under its reauthorization. Specifically, the Statement of Budgetary Resources was realigned as prescribed by FASAB. In addition, Advances from Others was reclassified from Other Liabilities resulting from FEMA Corps activities and Accounts Payable – Other was reclassified from Grants Payable to Accounts Payable.

## ***X. CONCENTRATION OF RISKS***

Congress annually considers whether to fund CNCS' program and operational activities. Should Congress opt not to enact appropriations to fund them, CNCS would be unable to continue operations. However, for fiscal year 2012 Congress did not fund the Learn & Serve America program and CNCS does not anticipate that additional funding will be enacted in the future. Corporation management believes the risk of such an occurrence is remote.

**NOTE 2 – FUND BALANCE WITH TREASURY**

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of the following:

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation’s programs on an annual, multi-year, and no-year basis.
- **Trust Funds** – Trust funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the National Service Trust may be expended for the purpose of providing an education award or student loan interest forbearance payment and are made directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant. The National Service Trust also pays awards under the President’s Freedom Scholarship, Summer of Service, and Silver Scholar programs.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of national service laws.

<b>Fund Balance with Treasury as of September 30, 2012</b>			
<i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Appropriated Funds	\$ 960,310	\$ -	\$ 960,310
Trust Funds	-	4,951	4,951
Gift Funds	-	667	667
<b>Total</b>	<b><u>\$ 960,310</u></b>	<b><u>\$ 5,618</u></b>	<b><u>\$ 965,928</u></b>

<b>Fund Balance with Treasury as of September 30, 2011</b>			
<i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Appropriated Funds	\$ 941,944	\$ -	\$ 941,944
Trust Funds	-	361	361
Gift Funds	-	565	565
<b>Total</b>	<b><u>\$ 941,944</u></b>	<b><u>\$ 926</u></b>	<b><u>\$ 942,870</u></b>

**NOTE 2 – FUND BALANCE WITH TREASURY – CONTINUED**

<b>Unexpended Balances as of September 30, 2012</b> <i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
FBWT	\$ 960,310	\$ 5,618	\$ 965,928
Investments	-	638,565	638,565
<b>Total</b>	<b><u>\$ 960,310</u></b>	<b><u>\$ 644,183</u></b>	<b><u>\$ 1,604,493</u></b>

<b>Status of Unexpended Balances as of September 30, 2012</b> <i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Unobligated:			
Available	\$ 130,960	\$ 79,642	\$ 210,602
Unavailable	-	-	-
Obligated not yet Disbursed	829,350	564,541	1,393,891
<b>Total</b>	<b><u>\$ 960,310</u></b>	<b><u>\$ 644,183</u></b>	<b><u>\$ 1,604,493</u></b>

<b>Unexpended Balances as of September 30, 2011</b> <i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
FBWT	\$ 941,944	\$ 926	\$ 942,870
Investments	-	605,661	605,661
<b>Total</b>	<b><u>\$ 941,944</u></b>	<b><u>\$ 606,587</u></b>	<b><u>\$ 1,548,531</u></b>

<b>Status of Unexpended Balances as of September 30, 2011</b> <i>(dollars in thousands)</i>			
<b>Type</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Unobligated:			
Available	\$ 97,219	\$ 13,771	\$ 110,990
Unavailable	-	50,197	50,197
Obligated not yet Disbursed	844,725	542,619	1,387,344
<b>Total</b>	<b><u>\$ 941,944</u></b>	<b><u>\$ 606,587</u></b>	<b><u>\$ 1,548,531</u></b>

**NOTE 3 – NATIONAL SERVICE TRUST INVESTMENTS  
AND RELATED RECEIVABLES**

The composition of National Service Trust Investments and Related Receivables at September 30 is as follows:

<b>Investments and Related Receivables as of September 30</b> <i>(dollars in thousands)</i>		
	2012	2011
Investments, Carrying Value	\$ 637,507	\$ 604,218
Investment and Interest Receivable	1,058	1,443
<b>Total</b>	<b><u>\$ 638,565</u></b>	<b><u>\$ 605,661</u></b>

<b>Amortized Cost and Fair Value of Investment Securities</b> <b>as of September 30, 2012</b> <i>(dollars in thousands)</i>			
Securities	Amortized Cost	Gains/(Losses)	Fair Value
Notes	\$ 477,115	\$ 3,045	\$ 480,160
Bills	160,392	5	160,397
<b>Total</b>	<b><u>\$ 637,507</u></b>	<b><u>\$ 3,050</u></b>	<b><u>\$ 640,557</u></b>

<b>Amortized Cost and Fair Value of Investment Securities</b> <b>as of September 30, 2011</b> <i>(dollars in thousands)</i>			
Securities	Amortized Cost	Gains/(Losses)	Fair Value
Notes	\$ 426,846	\$ 5,220	\$ 432,066
Bills	177,372	45	177,417
<b>Total</b>	<b><u>\$ 604,218</u></b>	<b><u>\$ 5,265</u></b>	<b><u>\$ 609,483</u></b>

At September 30, 2012, the notes held at year-end had an interest rate range of 0.250% to 1.875% and an outstanding maturity period of approximately 34 days to 3 years. The bills held at year-end had an interest rate range of 0.000% to 0.095% and were all due to mature within 186 days. The par values of these bills range from \$.30 million to \$35.8 million. The fair value of the bills and notes is based on bid and ask prices quoted by the Treasury as of September 30, 2012 and 2011.

Since fiscal 2003, the Corporation has set aside in reserve a portion of the funds in the National Service Trust for use in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. This reserve was originally required by the Strengthen AmeriCorps Program Act, and is now required by section 149(b) of the National and Community Service Act (42 U.S.C. 12606(b)). As of September 30, 2012, \$50.197 million of the Corporation's investment account has been set aside for this reserve.

**NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES –  
CONTINUED**

Investments held at September 30 mature according to the following schedule:

<b>Maturation of Securities Held as of September 30</b> <i>(dollars in thousands)</i>				
<b>Held-to-Maturity Securities</b>	<b>2012</b>		<b>2011</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Due in 1 year or less	\$ 327,537	\$ 327,780	\$ 323,876	\$ 324,250
Due after 1 year up to 5 years	309,970	312,777	280,342	285,233
<b>Total</b>	<b><u>\$ 637,507</u></b>	<b><u>\$ 640,557</u></b>	<b><u>\$ 604,218</u></b>	<b><u>\$ 609,483</u></b>

**NOTE 4 – ACCOUNTS RECEIVABLE, NET**

<b>Accounts Receivable as of September 30</b> <i>(dollars in thousands)</i>			
	<b>Appropriated</b>		<b>Total</b>
	<b>Funds</b>	<b>Trust Fund</b>	
<b>2012</b>			
Accounts receivable	\$ 8,616	\$ 289	\$ 8,905
Less: allowance for loss on receivables	(384)	(38)	(422)
<b>Accounts Receivable, Net</b>	<b><u>\$ 8,232</u></b>	<b><u>\$ 251</u></b>	<b><u>\$ 8,483</u></b>
<b>2011</b>			
Accounts receivable	\$ 7,168	\$ 653	\$ 7,821
Less: allowance for loss on receivables	(204)	(10)	(214)
<b>Accounts Receivable, Net</b>	<b><u>\$ 6,964</u></b>	<b><u>\$ 643</u></b>	<b><u>\$ 7,607</u></b>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET**

<b>General Property and Equipment as of September 30, 2012</b> <i>(dollars in thousands)</i>				
<b>Major Class</b>	<b>Service Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Equipment	3 - 10	\$ 2,586	\$ (1,863)	\$ 723
ADP software	2	9,446	(8,559)	887
<b>Total</b>		<b><u>\$ 12,032</u></b>	<b><u>\$ (10,422)</u></b>	<b><u>\$ 1,610</u></b>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET – CONTINUED**

<b>General Property and Equipment as of September 30, 2011</b>				
<i>(dollars in thousands)</i>				
<b>Major Class</b>	<b>Service Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Equipment	3 - 10	\$ 2,997	\$ (2,071)	\$ 926
ADP software	2	8,263	(8,263)	-
<b>Total</b>		<b>\$ 11,260</b>	<b>\$ (10,334)</b>	<b>\$ 926</b>

<b>Depreciation Expense for the period ending September 30</b>			
<i>(dollars in thousands)</i>			
<b>Major Class</b>	<b>2012</b>	<b>2011</b>	
Equipment	\$ (208)	\$ 203	
ADP software	296	-	
<b>Total</b>	<b>\$ 88</b>	<b>\$ 203</b>	

**NOTE 6 – TRUST SERVICE AWARD LIABILITY**

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The awards, which are available to use for a period of up to seven years after the benefit has been earned, are paid from the National Service Trust. The National Service Trust also pays forbearance interest on qualified student loans during the period members perform community service, as well as awards under the Presidential Freedom Scholarship Program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The Service Award was composed of the following as of September 30:

<b>Service Award Liability as of September 30</b>		
<i>(dollars in thousands)</i>		
	<b>2012</b>	<b>2011</b>
Education awards	\$ 2,109,437	\$ 1,900,793
Interest forbearance	72,256	62,425
President's Freedom Scholarship Program	<u>22,527</u>	<u>22,527</u>
Total estimated service award liability	2,204,220	1,985,745
Less: cumulative awards paid	1,757,029	1,575,484
<b>Total</b>	<b>\$ 447,191</b>	<b>\$ 410,261</b>

**NOTE 6 – TRUST SERVICE AWARD LIABILITY – CONTINUED**

The net Service Award Liability as of September 30, 2012 increased by approximately \$36.9 million from the net Service Award Liability as of September 30, 2011. This change was largely due to new member enrollments related to FEMA Corps and an increase in the number of members still serving during the year. Past Corporation appropriations made amounts from the National Service Trust available for \$1,000 scholarships for high school students known as Presidential Freedom Scholarships. To fund each scholarship, a local community or corporate source matched the \$500 portion of the scholarship provided by the Corporation. The program was discontinued in fiscal 2007; however, because students have up to seven years to use the scholarship, some payments will continue to be made over the next several years. As of October 1, 2009, the National Service Trust is also available to pay Summer of Service and Silver Scholar educational awards. However, the Silver Scholar program has not been funded so there is no current liability for those educational awards. The Summer of Service program was only funded in FY 2010.

**NOTE 7 – OPERATING LEASES**

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. The NCCC also leases housing facilities for its campuses. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the NCCC. The leases are renewable with no purchase or escalation clause. The following schedule presents future minimum rental commitments under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of September 30.

Estimated Operating Lease Commitments as of September 30									
<i>(dollars in thousands)</i>									
Year	2012				2011				
	Space	Vehicles	Other	Total	Space	Vehicles	Other	Total	
2012	\$ -	\$ -	\$ -	\$ -	\$ 9,694	\$ 641	\$ 307	\$ 10,642	
2013	9,861	766	339	10,966	9,994	548	285	10,827	
2014	9,846	788	294	10,928	10,303	570	285	11,158	
2015	10,151	819	279	11,249	10,621	593	276	11,490	
2016	10,465	851	272	11,588	10,950	617	265	11,832	
2017	10,790	884	272	11,946	-	-	-	-	
<b>Total</b>	<b>\$ 51,113</b>	<b>\$ 4,108</b>	<b>\$ 1,456</b>	<b>\$ 56,677</b>	<b>\$ 51,562</b>	<b>\$ 2,969</b>	<b>\$ 1,418</b>	<b>\$ 55,949</b>	

**NOTE 8 – ACTUARIAL FECA LIABILITY**

The Corporation’s actuarial liability for future workers’ compensation benefits under FECA was \$9.783 and \$9.092 million as of September 30, 2012 and 2011, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. As with all Federal agencies the Corporation’s FECA liability is determined by the Department of Labor. The actuarial 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 economic assumptions for 10-year Treasury notes and bonds.

**NOTE 9 – NET POSITION**

Net position consists of unexpended appropriations and cumulative results of operations. Component balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Funds.

<b>Net Position by Fund Balance Component as of September 30, 2012</b>				
<i>(dollars in thousands)</i>				
	<b>Gift</b>	<b>Trust</b>	<b>Appropriated</b>	<b>Total</b>
Unexpended appropriations	\$ 28	\$ -	\$ 864,803	864,831
Cumulative results of operations	633	196,576	(2,837)	194,372
<b>Total Net Position</b>	<b><u>\$ 661</u></b>	<b><u>\$ 196,576</u></b>	<b><u>\$ 861,966</u></b>	<b><u>\$ 1,059,203</u></b>

<b>Net Position by Fund Balance Component as of September 30, 2011</b>				
<i>(dollars in thousands)</i>				
	<b>Gift</b>	<b>Trust</b>	<b>Appropriated</b>	<b>Total</b>
Unexpended appropriations	\$ -	\$ -	\$ 876,088	\$ 876,088
Cumulative results of operations	591	196,404	(3,864)	193,131
<b>Total Net Position</b>	<b><u>\$ 591</u></b>	<b><u>\$ 196,404</u></b>	<b><u>\$ 872,224</u></b>	<b><u>\$ 1,069,219</u></b>

The Corporation is required to report information regarding its financial position according to three classes of net assets (net position): unrestricted, temporarily restricted and permanently restricted. The Corporation has no permanently restricted assets. The following table presents the Corporation's unrestricted and temporarily restricted net assets.

<b>Restrictions on Net Position as of September 30, 2012</b>			
<i>(dollars in thousands)</i>			
	<b>Unrestricted</b>	<b>Temporarily</b>	<b>Total</b>
Appropriated Funds	\$ 861,966	\$ -	\$ 861,966
Trust Funds	-	196,576	196,576
Gift Funds	28	633	661
<b>Total Net Position</b>	<b><u>\$ 861,994</u></b>	<b><u>\$ 197,209</u></b>	<b><u>\$ 1,059,203</u></b>

<b>Restrictions on Net Position as of September 30, 2011</b>			
<i>(dollars in thousands)</i>			
	<b>Unrestricted</b>	<b>Temporarily</b>	<b>Total</b>
Appropriated Funds	\$ 872,224	\$ -	\$ 872,224
Trust Funds	-	196,404	196,404
Gift Funds	-	591	591
<b>Total Net Position</b>	<b><u>\$ 872,224</u></b>	<b><u>\$ 196,995</u></b>	<b><u>\$ 1,069,219</u></b>

## ***NOTE 10 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST***

For fiscal year 2012, the National Service Trust received \$207.561 million under the Consolidated Appropriations Act, 2012. For fiscal year 2011, the National Service Trust received \$199.260 million under the Department of Defense and Full-Year Continuing Appropriations Act, 2012 (Public Law 112-10). The acts also authorized the Corporation to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. The Corporation transferred \$4.355 million and \$1.940 million to the Trust under this provision in fiscal year 2012 and 2011, respectively.

## ***NOTE 11 – EXPENSES***

Using an appropriate cost accounting methodology, the Corporation's expenses have been allocated among its major programs, at the sub-program level. Costs for each sub-program are reported on separately:

**AmeriCorps** engages members in intense, impact-oriented service to address local community needs in areas of education, healthy futures, environmental stewardship, economic opportunity, disaster services, and assisting veterans and military families. AmeriCorps includes the *State, National, Tribes, and Territories* (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations. The NCCC sub-program includes member stipend and benefits, and direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations. The VISTA sub-program includes grant expenses, member stipend and benefits, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations.

**The National Senior Service Corps** programs provide opportunities for members 55 and older to address local community needs in the areas of education, assisting veterans and military families, disaster response, and healthy futures. Senior Corps includes the Foster Grandparent Program (FGP); Senior Companion Program (SCP); and the Retired and Senior Volunteer Program (RSVP). The NSSC responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. The Corporation also has reimbursable agreements with several state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State (pass-through grants). The activity related to pass-through grants has been reclassified to be associated with the related Senior Corps program.

**Learn and Serve America** includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Learn and Serve America Program, the President's Student Service Challenge, and National Service Leader Schools. The Learn & Serve program was not funded in FY 2011; however, there will be on-going activity through FY 2013 as the program winds down.

**The National Service Award** Expense component consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year and interest forbearance costs on qualified student loans during the period members perform community service. No indirect costs have been allocated to the National Service Award expense component.

**Innovation, Demonstration, & Assistance Activities** (ID&A Activities) include grants to support and encourage new forms of service and volunteering. The most significant program is the Social Innovation Fund (SIF). The primary objective of the SIF is to improve the lives of people in low-income communities by mobilizing public and private resources to grow innovative nonprofit organizations that have evidence of compelling impact in the areas of economic opportunity, youth development, and healthy futures. No indirect costs have been allocated to the Innovation, Demonstration, & Assistance Activities component.

**The Office of Inspector General** (OIG) receives a separate appropriation. No indirect costs have been allocated to OIG.

**NOTE 11 – EXPENSES – CONTINUED**

<b>Components of Grant Funds Expended for the period ended September 30</b>		
<i>(dollars in thousands)</i>		
	<b>2012</b>	<b>2011</b>
Domestic Volunteer Service Act Programs	\$ 227,317	\$ 249,235
National and Community Service Act Programs	407,603	434,821
<b>Total Grant Funds Expended</b>	<b><u>\$ 634,920</u></b>	<b><u>\$ 684,056</u></b>

<b>Expenses by Major Responsibility Segment for the period ended September 30</b>		
<i>(dollars in thousands)</i>		
	<b>2012</b>	<b>2011</b>
<b>AmeriCorps:</b>		
State/National	\$ 609,046	\$ 633,975
NCCC	45,394	35,826
VISTA	<u>138,035</u>	<u>138,159</u>
Subtotal	\$ 792,475	\$ 807,960
<b>National Senior Service Corps:</b>		
Retired and Senior Volunteer Program	51,980	67,130
Foster Grandparent Program	119,206	118,900
Senior Companion Program	<u>\$ 51,129</u>	<u>\$ 51,318</u>
Subtotal	222,315	237,348
Learn and Serve America	17,801	33,261
Innovation, Demonstration, Assistance Activities	34,748	11,464
Office of Inspector General (OIG)	5,241	8,001
<b>Total Expenses</b>	<b><u>\$ 1,072,580</u></b>	<b><u>\$ 1,098,034</u></b>

**Expenses by Type and Subprogram for the period ended September 30, 2012**

*(dollars in thousands)*

Type	AmeriCorps			National Senior Service Corps			Learn & Serve	ID&A Activities	OIG	Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP				
<b>Grant and Related Expense</b>										
Grant funds expended	\$ 358,112	\$ -	\$ 29,387	\$ 46,345	\$ 106,159	\$ 45,426	\$ 15,583	\$ 33,908	\$ -	\$ 634,920
VISTA & NCCC stipends & benefits	-	9,571	60,951	-	-	-	-	-	-	70,522
Service award expense	182,786	8,609	27,028	-	-	-	-	-	-	218,423
<b>Total Grant and Related Expense</b>	<b>540,898</b>	<b>18,180</b>	<b>117,366</b>	<b>46,345</b>	<b>106,159</b>	<b>45,426</b>	<b>15,583</b>	<b>33,908</b>	<b>-</b>	<b>923,865</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	34,919	9,504	7,885	2,497	5,861	2,485	1,251	-	3,429	67,831
Travel & transportation	1,144	3,217	1,606	386	865	380	37	-	98	7,733
Rent, communications, & utilities	4,439	5,247	835	322	756	320	105	-	98	12,122
Program analysis & evaluation	1,876	137	395	161	379	161	101	-	-	3,210
Printing & reproduction	68	40	12	36	16	11	2	-	2	187
Other services and expenses	25,116	7,460	9,840	2,186	5,060	2,299	706	840	1,574	55,081
Supplies & materials	212	1,603	39	17	39	17	6	-	40	1,973
Depreciation, amortization & loss on disposition of assets	322	5	49	26	61	26	9	-	-	498
Bad debt	52	1	8	4	10	4	1	-	-	80
<b>Total Administrative Expense</b>	<b>68,148</b>	<b>27,214</b>	<b>20,669</b>	<b>5,635</b>	<b>13,047</b>	<b>5,703</b>	<b>2,218</b>	<b>840</b>	<b>5,241</b>	<b>148,715</b>
<b>Total Expenses by Type</b>	<b>\$ 609,046</b>	<b>\$ 45,394</b>	<b>\$ 138,035</b>	<b>\$ 51,980</b>	<b>\$ 119,206</b>	<b>\$ 51,129</b>	<b>\$ 17,801</b>	<b>\$ 34,748</b>	<b>\$ 5,241</b>	<b>\$ 1,072,580</b>

**Expenses by Type and Subprogram for the period ended September 30, 2011**

*(dollars in thousands)*

Type	AmeriCorps			National Senior Service Corps			Learn & Serve	ID&A Activities	OIG	Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP				
<b>Grant and Related Expense</b>										
Grant funds expended	\$ 396,174	\$ -	\$ 36,465	\$ 59,244	\$ 107,643	\$ 45,883	\$ 27,563	\$ 11,084	\$ -	\$ 684,056
VISTA & NCCC stipends & benefits	-	8,137	57,363	-	-	-	-	-	-	65,500
Service award expense	173,300	4,339	17,601	-	-	-	577	-	-	195,817
<b>Total Grant and Related Expense</b>	<b>569,474</b>	<b>12,476</b>	<b>111,429</b>	<b>59,244</b>	<b>107,643</b>	<b>45,883</b>	<b>28,140</b>	<b>11,084</b>	<b>-</b>	<b>945,373</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	31,974	9,664	7,491	2,754	5,031	2,147	2,794	-	4,887	66,742
Travel & transportation	1,166	3,516	1,584	505	887	387	85	-	318	8,448
Rent, communications, & utilities	4,548	3,616	948	407	745	318	182	-	403	11,167
Program analysis & evaluation	1,735	449	629	266	479	206	382	-	-	4,146
Printing & reproduction	164	91	81	107	35	60	7	-	-	545
Other services and expenses	24,511	4,759	15,862	3,810	4,012	2,288	1,647	380	2,209	59,478
Supplies & materials	407	1,255	136	37	68	29	24	-	184	2,140
Depreciation, amortization & loss on disposition of assets	129	2	20	13	24	10	6	-	-	204
Bad debt	(133)	(2)	(21)	(13)	(24)	(10)	(6)	-	-	(209)
<b>Total Administrative Expense</b>	<b>64,501</b>	<b>23,350</b>	<b>26,730</b>	<b>7,886</b>	<b>11,257</b>	<b>5,435</b>	<b>5,121</b>	<b>380</b>	<b>8,001</b>	<b>152,661</b>
<b>Total Expenses by Type</b>	<b>\$ 633,975</b>	<b>\$ 35,826</b>	<b>\$ 138,159</b>	<b>\$ 67,130</b>	<b>\$ 118,900</b>	<b>\$ 51,318</b>	<b>\$ 33,261</b>	<b>\$ 11,464</b>	<b>\$ 8,001</b>	<b>\$ 1,098,034</b>

**NOTE 12 – NATIONAL SERVICE AWARD EXPENSE**

Members serving in approved national service positions are eligible to earn a service award to pay for qualified education expenses. The National Service Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2012 and 2011, respectively, has been adjusted to reflect the fact that earned awards are not always used.

<b>National Service Award Expense for the period ended September 30</b> <i>(dollars in thousands)</i>		
	<b>2012</b>	<b>2011</b>
Estimated education awards	\$ 208,758	\$ 188,599
Estimated interest forbearance	9,665	7,218
<b>National Service Award Expense</b>	<b><u>\$ 218,423</u></b>	<b><u>\$ 195,817</u></b>

**NOTE 13 – CHANGE IN UNEXPENDED APPROPRIATIONS, NET**

<b>Unexpended Appropriations, Net as of September 30</b> <i>(dollars in thousands)</i>		
	<b>2012</b>	<b>2011</b>
Unexpended Appropriations, Beginning Balance	\$ 876,088	\$ 935,080
<b>Increases:</b>		
Appropriations Received, Net of Trust	1,050,870	1,077,733
<b>Decreases:</b>		
Appropriated Capital Used	(824,684)	(883,872)
Appropriations Transferred to Trust Fund (net of rescissions)	(207,561)	(199,260)
Program Funds Transferred to Trust	(4,355)	(1,940)
Rescissions and Cancellations	<u>(25,527)</u>	<u>(51,653)</u>
Total Decreases	(1,062,127)	(1,136,725)
<b>Change in Unexpended Appropriations</b>	<b>(11,257)</b>	<b>(58,992)</b>
<b>Unexpended Appropriations, Ending Balance</b>	<b><u>\$ 864,831</u></b>	<b><u>\$ 876,088</u></b>

**NOTE 14 – CONTINGENCIES**

The Corporation is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Corporation. In the opinion of the Corporation’s management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of the Corporation.

Certain legal matters to which the Corporation is a party may be administered and, in some instances, litigated and paid by other Federal agencies. Generally, amounts paid in excess of \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from the Treasury Judgment Fund (TJF). Although the ultimate disposition of any potential TJF proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to the Corporation’s financial statements.

**NOTE 15 – SUBSEQUENT EVENTS**

The Corporation has evaluated subsequent events through November 16, 2012, which is the date these financial statements were available to be issued. As a consequence of its evaluation, the Corporation has determined that no subsequent events need to be recognized or disclosed.

**NOTE 16 - UNDELIVERED ORDERS AT FISCAL YEAR-END**

The Corporation’s undelivered orders at September 30, 2012 and 2011 were \$895,614 and \$921,674 thousand, respectively.

**NOTE 17 – APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS**

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions Corporation funds on both a quarterly and annual basis. Obligations incurred during FY 2012 and 2011 were:

<b>Consolidated Obligations Incurred through September 30</b> <i>(dollars in thousands)</i>			
<b>Fiscal Year</b>	<b>Direct</b>	<b>Reimbursable</b>	<b>Total</b>
<b>2011</b>	\$ 1,255,712	\$ 19,949	\$ <b>1,275,661</b>
<b>2010</b>	\$ 1,288,240	\$ 11,081	\$ <b>1,299,321</b>

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

To the Board of Directors and the Inspector General of the Corporation for National and Community Service

We have audited the consolidated financial statements of the Corporation for National and Community Service (the Corporation) as of and for the year ended September 30, 2012, and have issued our report dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of the Corporation is responsible for establishing, maintaining, and assessing internal control related to financial reporting and compliance, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) are met.

In planning and performing our work, we considered the Corporation's internal control over financial reporting and compliance by obtaining an understanding of the design effectiveness of the Corporation's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the Corporation's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

We limited our internal control testing to those controls necessary to achieve the OMB Bulletin No. 07-04, as amended, control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in compliance with laws governing the use of budget authority, Government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, as amended, and other laws and regulations that could have a direct and material effect on the financial statements. We did not test all internal controls relevant to operating objectives, as broadly defined by the FMFIA, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses

have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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

### **Material Weakness**

#### **Grant Accrual Estimate (Modified Repeat Condition)**

The Corporation did not have adequate internal controls in place to ensure that the grant accrual was reasonably estimated. In fiscal year (FY) 2012, a significant variance was identified between Kearney & Company, P.C.'s (Kearney) recalculation of the June 30, 2012 grant accrual and the grant accrual amount recorded by the Corporation. Through inquiries, Kearney determined that the total grant accrual was misallocated between the Advance Offset and Grants Payable general ledger accounts. The error resulted from the use of an incorrect internal database to allocate the accrued expense to the Advance Offset and Grants Payable general ledger accounts. The incorrect database was archived by the Corporation in the fourth quarter of FY 2012 to reduce the risk of a similar error occurring in the future.

The transaction-level review procedures performed by the Corporation were not sufficient to identify this error prior to the issuance of the June 30, 2012 interim financial statements to OMB. Additionally, the error was not identified through the Corporation's quarterly variance analysis. The failure of these internal controls caused the error to go undetected; as a result, Advances to Others and Grants Payable were each understated by approximately \$39.7 million in the Corporation's June 30, 2012 interim financial statements.

Recommendations: While Kearney recognizes that the test database has already been archived, we recommend that the Corporation take the following actions to further improve the overall grant accrual and internal validation processes:

- Document and maintain support for the data and assumptions used to develop the grant accruals. The documentation should be sufficient and readily available to facilitate the Corporation's review of the assumptions and conclusions
- Strengthen controls over the grant accrual validation process by reviewing the grant accrual as part of its Internal Control Review Testing Plan
- Substantiate the Department of Health and Human Services' Payment Management System information and Microsoft Access database results by developing expectations of the estimate based on historical patterns and other influencing factors, and/or re-performing the process during the adjustment review and approval

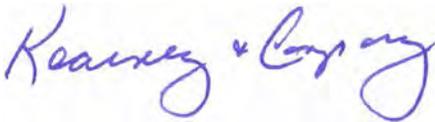
- Set a threshold for grant accrual variance analysis and research any differences exceeding a predetermined percentage and/or amount.

During the audit, we noted certain other matters involving internal control and its operations over financial reporting that we will report to the Corporation's management in a separate letter.

The Corporation's management has provided its response to our findings in the Independent Auditor's Report section of the Agency Financial Report. We did not audit management's response and, accordingly, we do not express an opinion on it.

\* \* \* \* \*

This report is intended solely for the information and use of the Corporation's management, those charged with governance and others within the Corporation, the Corporation's Office of Inspector General, the Government Accountability Office, OMB, the Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 16, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS**

To the Board of Directors and the Inspector General of the Corporation for National and Community Service

We have audited the consolidated financial statements of the Corporation for National and Community Service (the Corporation) as of and for the year ended September 30, 2012, and have issued our report dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of the Corporation is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of the Corporation's 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 other laws and regulations specified in OMB Bulletin No. 07-04, as amended, that we determined were applicable. We limited our tests of compliance to these provisions; we did not test compliance with all laws and regulations applicable to the Corporation. Providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended.

\* \* \* \* \*

This report is intended solely for the information and use of the Corporation's management, those charged with governance and others within the Corporation, the Corporation's Office of Inspector General, the Government Accountability Office, OMB, the Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Alexandria, Virginia  
November 16, 2012

**APPENDIX**

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**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S  
RESPONSE TO DRAFT REPORT**



**MEMORANDUM**

**DATE:** November 16, 2012

**TO:** Deborah Jeffrey, Inspector General

**FROM:** David Rebich, Chief Financial Officer

**SUBJECT:** Draft Report on the Corporation's FY 2012 Financial Statements

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Thank you for the opportunity to respond to the draft report on the results of your audit of the Corporation for National and Community Service's FY 2012 financial statements. I am pleased that we can report that in FY 2012 CNCS maintained its record of strong fiscal stewardship for the American people. CNCS received an unqualified opinion on its consolidated financial statements for the 13th consecutive year. The audit also found no instance of noncompliance with laws and regulations.

I am also pleased that three management letter findings associated with financial reporting and eight management letter findings associated with Information Technology contained in the FY 2011 report have been corrected. However, the audit resulted in a modified repeat of the FY 2011 material weakness in financial reporting related to the estimated grant accruals. CNCS had a material error related to the grant accruals in the third quarter financial statements for fiscal year 2012. CNCS determined in reviewing the third quarter grant accrual that an incorrect file was used to estimate the accrual. CNCS immediately corrected the file and supplemented review controls to prevent future occurrences. This issue was resolved for the end of the year financial statements. Overall, the results reflect CNCS' commitment to sound financial management and the hard work to continuously improve financial operations.