

Office of Inspector General Corporation for National and Community Service

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2011 FINANCIAL STATEMENTS

Audit Report Number 12-01



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

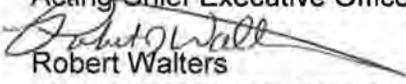
Kearney & Company
1701 Duke Street, Suite 500
Alexandria, Virginia 22314

This report was issued to Corporation management on November 15, 2011. 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, 2012, and complete its corrective actions by November 15, 2012. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 15, 2011

TO: Robert Velasco
Acting Chief Executive Officer

FROM: 
Robert Walters
Assistant Inspector General for Investigations

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2011 Financial Statements, OIG Audit Report 12-01

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, 2011 and 2010, 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 15, 2011, 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: James Siegal, Chief of Staff
Kim Mansaray, Acting Chief Operating Officer
William Anderson, Chief Financial Officer
Idara Nickelson, Chief of Program Operations
Valerie Green, General Counsel
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
Philip Clark, Chief Information Officer
David Zavada, Engagement Partner, Kearney & Company

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and 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, 2011 and 2010, 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 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; 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.

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 the *Independent Auditor’s Report on Internal Control* and Note 18, *Restatements*, to the fiscal year (FY) 2011 financial statements, the Corporation restated its FY 2010 financial statements to correct errors identified during the FY 2011 financial statement audit related to an overstatement of its accrued grant expense and the effect of the overstatement on the ending balances reported for advances, grants payable, and other related accounts. Accordingly, our November 15, 2010 audit report on the FY 2010 consolidated statement of financial position, the consolidated statement of operations and changes in net position, and the consolidated statement of cash flows, is replaced by the report on the restated financial statements, as presented herein.



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, 2011 and 2010, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying “Management’s Discussion and Analysis” and “Other Accompanying Information” are not required parts of the basic financial statements. Rather, they are considered supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. This supplementary information is the responsibility of the Corporation’s management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information and comparing this information for consistency with the financial statements; however, such information was not subjected to the procedures applied in our audits of the basic financial statements. Accordingly, we do not express an opinion on this information.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 15, 2011, on our consideration of the Corporation’s internal control over financial reporting and compliance, and on our tests of the Corporation’s compliance with certain provisions of laws, regulations, and other matters for the year ended September 30, 2011. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance 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 15, 2011

**Corporation for
National & Community Service
Fiscal Year 2011 and 2010
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 2011 and 2010. For fiscal 2011, 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. CNCS has restated its audited FY 2010 Consolidated Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows to correct an overstatement of its estimated accrued grant expense (see note 18). The restatements had no effect on the FY 2010 Combined Statement of Budgetary Resources.

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)

	2011	Restated 2010
ASSETS		
Fund Balance with Treasury <i>(Note 2)</i>	\$ 942,870	\$ 998,408
Trust Investments and Related Receivables <i>(Note 3)</i>	605,661	565,195
Advances to Others <i>(Note 18)</i>	64,942	82,640
Accounts Receivable, Net <i>(Note 4)</i>	7,607	3,783
Property and Equipment, Net <i>(Note 5)</i>	926	1,129
Total Assets	<u>\$ 1,622,006</u>	<u>\$ 1,651,155</u>
 LIABILITIES		
Trust Service Award Liability <i>(Note 6)</i>	\$ 410,261	\$ 379,878
Grants Payable <i>(Note 18)</i>	116,261	125,678
Accounts Payable	2,637	2,875
Actuarial FECA Liability <i>(Note 8)</i>	9,092	12,092
Accrued Annual Leave	4,121	4,163
Other Liabilities	10,415	13,853
Total Liabilities	<u>552,787</u>	<u>538,539</u>
Contingencies <i>(Note 14)</i>		
NET POSITION <i>(Notes 9 & 18)</i>	<u>1,069,219</u>	<u>1,112,616</u>
Total Liabilities and Net Position	<u>\$ 1,622,006</u>	<u>\$ 1,651,155</u>

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)

	2011	Restated 2010
REVENUE		
Appropriated Capital Used <i>(Note 18)</i>	\$ 883,872	\$ 876,568
Appropriations Received by the National Service Trust <i>(Note 10)</i>	201,200	199,659
Interest	4,669	7,288
Revenue from Services Provided	12,049	11,274
Other	11,839	990
Total Revenue	<u>1,113,629</u>	<u>1,095,779</u>
 EXPENSES		
AmeriCorps	807,960	808,662
SeniorCorps	237,348	235,814
Learn and Serve America	33,261	37,539
Innovation, Demonstration and Assistance Activities	11,464	17,888
Office of the Inspector General	8,001	7,292
Total Expenses <i>(Notes 11 & 18)</i>	<u>1,098,034</u>	<u>1,107,195</u>
 Net of Revenue Over Expenses	 <u>\$ 15,595</u>	 <u>\$ (11,416)</u>
 NET POSITION		
Net of Revenue over Expenses	\$ 15,595	\$ (11,416)
Increase/(Decrease) in Unexpended		
Appropriations, Net <i>(Notes 13 & 18)</i>	<u>(58,992)</u>	<u>44,124</u>
Increase/(Decrease) in Net Position, Net <i>(Note 18)</i>	<u>(43,397)</u>	<u>32,708</u>
Net Position, Beginning Balance	<u>1,112,616</u>	<u>1,079,908</u>
 Net Position, Ending Balance <i>(Notes 9 & 18)</i>	 <u>\$ 1,069,219</u>	 <u>\$ 1,112,616</u>

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)

	2011	Restated 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net of Revenue over Expenses	\$ 15,595	\$ (11,416)
Adjustments Affecting Cash Flow:		
Depreciation, Amortization, and Loss on Disposition of Assets	203	580
Amortization of Premium/Discount on Investments	1,137	4,045
Appropriated Capital Used <i>(Note 18)</i>	(883,872)	(876,568)
Appropriations Received in Trust	(201,200)	(199,659)
Decrease/(Increase) in Accounts Receivable	(3,824)	(1,020)
Decrease/(Increase) in Interest Receivable	299	2,363
Decrease/(Increase) in Advances to Others <i>(Note 18)</i>	17,698	(15,119)
Increase/(Decrease) in Accounts Payable and Other Liabilities	(3,676)	(2,091)
Increase/(Decrease) in FECA and Annual Leave Liabilities	(3,042)	1,770
Increase/(Decrease) in Trust Liability	30,383	55,811
Increase/(Decrease) in Grants Payable <i>(Note 18)</i>	(9,417)	20,594
Total Adjustments	<u>(1,055,311)</u>	<u>(1,009,294)</u>
Net Cash Provided/(Used) by Operating Activities	<u>(1,039,716)</u>	<u>(1,020,710)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Securities	749,891	905,140
Purchase of Securities	<u>(791,793)</u>	<u>(956,905)</u>
Net Cash Provided/(Used) in Investing Activities	<u>(41,902)</u>	<u>(51,765)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received, Net of Trust	1,077,733	1,149,721
Rescissions and Cancellations	<u>(51,653)</u>	<u>(29,370)</u>
Net Cash Provided by Financing Activities	<u>1,026,080</u>	<u>1,120,351</u>
 Net Increase/(Decrease) in Fund Balance with Treasury	(55,538)	47,876
 Fund Balance with Treasury, Beginning	<u>998,408</u>	<u>950,532</u>
 Fund Balance with Treasury, Ending	<u>\$ 942,870</u>	<u>\$ 998,408</u>

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)

BUDGETARY RESOURCES	2011	2010
Unobligated balance, brought forward, October 1	\$ 155,307	\$ 187,608
Recoveries of prior year unpaid obligations	53,606	32,951
Budget authority:		
Appropriation	1,286,080	1,366,207
Spending authority from offsetting collections:		
Collected	12,116	11,435
Change in receivables from Federal sources	6	-
Change in unfilled customer orders:		
Advance received	53	-
Without advance from Federal sources	534	-
Total budget authority	1,298,789	1,377,642
Permanently not available	(51,653)	(29,370)
Total budgetary resources	\$ 1,456,049	\$ 1,568,831

STATUS OF BUDGETARY RESOURCES

Obligations incurred		
Direct	1,288,240	\$ 1,403,065
Reimbursable	11,081	\$ 10,459
Subtotal	1,299,321	1,413,524
Unobligated balance		
Apportioned	70,623	50,497
Unobligated balance not available	86,105	104,810
Total status of budgetary resources	\$ 1,456,049	\$ 1,568,831

(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)

	2011	2010
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations, brought forward, October 1	\$ 1,400,061	\$ 1,265,772
Uncollected customer payments from Federal sources, brought forward, October 1	-	-
Total unpaid obligated balance, net	1,400,061	1,265,772
Obligations incurred, net	1,299,321	1,413,524
Gross outlays	(1,257,893)	(1,246,284)
Recoveries of prior year unpaid obligations, actual	(53,606)	(32,951)
Change in uncollected customer payments from Federal sources	(539)	-
Total unpaid obligated balance, net, end of period	<u>\$ 1,387,344</u>	<u>\$ 1,400,061</u>
Obligated balance, net, end of period:		
Unpaid obligations	\$ 1,387,883	1,400,061
Uncollected customer payments from Federal sources	(539)	-
Total unpaid obligated balance, net, end of period	<u>\$ 1,387,344</u>	<u>\$ 1,400,061</u>
NET OUTLAYS		
Gross outlays	\$ 1,257,893	1,246,284
Offsetting collections	(12,169)	(11,436)
Distributed offsetting receipts	(202,076)	(200,822)
Net outlays	<u>\$ 1,043,648</u>	<u>\$ 1,034,026</u>

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 2011 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.

The Corporation made retirement contributions of \$305 and \$403 thousand to the CSRS, and \$10.3 and \$9.6 million to FERS and TSP in fiscal years 2011 and 2010, respectively.

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, a new program category, Innovation, Demonstration and Assistance Activities was added, primarily to reflect the prominence of the Social Innovation Funds program. In addition, pass through grants have been allocated to the Senior Corps program for which they are associated rather than reported separately and cost share revenue has been reclassified from "Other" to "Revenue from Services Provided." The effects of the reclassifications on the FY 2010 Statement of Operations and Changes in Net Position are included in note 18.

X. CONCENTRATION OF RISKS

The Congress annually considers whether to fund the Corporation's program and operational activities. Should the Congress opt not to enact appropriations to fund them, the Corporation would be unable to continue operations. Corporation management believes the risk of such an occurrence is remote. However, for fiscal 2011 Congress did not fund the Learn & Serve America program and the Corporation does not anticipate that additional funding will be enacted in the future. Grant activity previously funded under the Learn & Serve America program will continue through fiscal 2013.

The Corporation also has established agreements with other Federal entities and contracts with service providers to help it administer key business processes. Should these agreements be terminated without ample time to replace them, the Corporation could experience significant difficulty in fulfilling its statutory responsibilities. These agreements are as follows:

- National Finance Center of the U.S. Department of Agriculture for payroll services;
- U.S. General Service Administration for the lease of buildings and automobiles;
- U.S. Department of Health and Human Services for grants processing and reporting services;
- CGI Group, Inc. for the maintenance of the system platform supporting accounting and procurement; and
- SRA International, Inc. for information technology services.

Corporation management believes the risk of termination of these agreements 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.

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

Fund Balance with Treasury as of September 30, 2010			
<i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
Appropriated Funds	\$ 997,549	\$ -	\$ 997,549
Trust Funds	-	241	241
Gift Funds	-	618	618
Total	\$ 997,549	\$ 859	\$ 998,408

NOTE 2 – FUND BALANCE WITH TREASURY – CONTINUED

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

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

Unexpended Balances as of September 30, 2010 <i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
FBWT	\$ 997,549	\$ 859	\$ 998,408
Investments	-	565,195	565,195
Total	\$ 997,549	\$ 566,054	\$ 1,563,603

Status of Unexpended Balances as of September 30, 2010 <i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
Unobligated:			
Available	\$ 96,444	\$ 16,901	\$ 113,345
Unavailable	-	50,197	50,197
Obligated not yet Disbursed	901,105	498,956	1,400,061
Total	\$ 997,549	\$ 566,054	\$ 1,563,603

**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:

Investments and Related Receivables as of September 30			
<i>(dollars in thousands)</i>			
		2011	2010
Investments, Carrying Value	\$	604,218	\$ 563,453
Investment and Interest Receivable		1,443	1,742
Total	\$	<u>605,661</u>	<u>\$ 565,195</u>

Amortized Cost and Fair Value of Investment Securities			
as of September 30, 2011			
<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
Total	<u>\$ 604,218</u>	<u>\$ 5,265</u>	<u>\$ 609,483</u>

Amortized Cost and Fair Value of Investment Securities			
as of September 30, 2010			
<i>(dollars in thousands)</i>			
Securities	Amortized Cost	Gains/(Losses)	Fair Value
Notes	\$ 310,307	\$ 4,736	\$ 315,043
Bills	253,146	52	253,198
Total	<u>\$ 563,453</u>	<u>\$ 4,788</u>	<u>\$ 568,241</u>

At September 30, 2011, the notes held at year-end had an interest rate range of 0.375% to 4.875% and an outstanding maturity period of approximately 31 days to 4 years. The bills held at year-end had an interest rate range of 0.000% to 0.305% and were all due to mature within 159 days. The par values of these bills range from \$.70 million to \$42.13 million. The fair value of the bills and notes is based on bid and ask prices quoted by the Treasury as of September 30, 2011 and 2010.

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, 2011, \$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:

Maturation of Securities Held as of September 30 <i>(dollars in thousands)</i>				
Held-to-Maturity Securities	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Due in 1 year or less	\$ 323,876	\$ 324,250	\$ 332,181	\$ 332,378
Due after 1 year up to 5 years	280,342	285,233	231,272	235,863
Total	\$ 604,218	\$ 609,483	\$ 563,453	\$ 568,241

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30 <i>(dollars in thousands)</i>			
	Appropriated		Total
	Funds	Trust Fund	
2011			
Accounts receivable	\$ 7,168	\$ 653	\$ 7,821
Less: allowance for loss on receivables	(204)	(10)	(214)
Accounts Receivable, Net	\$ 6,964	\$ 643	\$ 7,607
2010			
Accounts receivable	\$ 4,357	\$ 214	\$ 4,571
Less: allowance for loss on receivables	(788)	-	(788)
Accounts Receivable, Net	\$ 3,569	\$ 214	\$ 3,783

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

NOTE 5 – PROPERTY AND EQUIPMENT, NET – CONTINUED

General Property and Equipment as of September 30, 2010				
<i>(dollars in thousands)</i>				
Major Class	Service Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 - 10	\$ 2,997	\$ (1,868)	\$ 1,129
ADP software	2	8,263	(8,263)	-
Total		\$ 11,260	\$ (10,131)	\$ 1,129

Depreciation Expense for the period ending September 30			
<i>(dollars in thousands)</i>			
Major Class	2011	2010	
Equipment	\$ 203	\$ 206	
ADP software	-	375	
Total	\$ 203	\$ 581	

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:

Service Award Liability as of September 30			
<i>(dollars in thousands)</i>			
	2011	2010	
Education awards	\$ 1,900,793	\$ 1,712,184	
Interest forbearance	62,425	55,207	
President's Freedom Scholarship Program	22,527	22,527	
Total estimated service award liability	1,985,745	1,789,918	
Less: cumulative awards paid	1,575,484	1,410,040	
Total	\$ 410,261	\$ 379,878	

NOTE 6 – TRUST SERVICE AWARD LIABILITY – CONTINUED

The net Service Award Liability as of September 30, 2011 increased by approximately \$30.4 million from the net Service Award Liability as of September 30, 2010. This change was largely due to the increase in the value of an education award, new member enrollments 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	2011				2010			
	Space	Vehicles	Other	Total	Space	Vehicles	Other	Total
2011	\$ -	\$ -	\$ -	\$ -	\$ 9,487	\$ 861	\$ 276	\$ 10,624
2012	9,694	641	307	10,642	9,781	820	266	10,867
2013	9,994	548	285	10,827	10,083	852	261	11,196
2014	10,303	570	285	11,158	10,395	885	264	11,544
2015	10,621	593	276	11,490	10,717	919	266	11,902
2016	10,950	617	265	11,832	-	-	-	-
Total	\$ 51,562	\$ 2,969	\$ 1,418	\$ 55,949	\$ 50,463	\$ 4,337	\$ 1,333	\$ 56,133

NOTE 8 – ACTUARIAL FECA LIABILITY

The Corporation's actuarial liability for future workers' compensation benefits under FECA was \$9.092 and \$12.092 million as of September 30, 2011 and 2010, 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.

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

Net Position by Fund Balance Component as of September 30, 2010				
<i>(dollars in thousands)</i>				
	Gift	Trust	Appropriated	Total
Unexpended appropriations	\$ -	\$ -	\$ 935,080	\$ 935,080
Cumulative results of operations	571	185,772	(8,807)	177,536
Total Net Position	\$ 571	\$ 185,772	\$ 926,273	\$ 1,112,616

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.

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

Restrictions on Net Position as of September 30, 2010			
<i>(dollars in thousands)</i>			
	Unrestricted	Temporarily	Total
Appropriated Funds	\$ 926,273	\$ -	\$ 926,273
Trust Funds	-	185,772	185,772
Gift Funds	-	571	571
Total Net Position	\$ 926,273	\$ 186,343	\$ 1,112,616

NOTE 10 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST

For fiscal year 2011, the National Service Trust received \$199.260 million under the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (Public Law 112-10). For fiscal year 2010, the National Service Trust received \$197.000 million under the Consolidated Appropriations Act, 2010 (Public Law 111-117). 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 \$1.940 million and \$2.659 million to the Trust under this provision in fiscal year 2011 and 2010, 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

Components of Grant Funds Expended for the period ended September 30		
	<i>(dollars in thousands)</i>	
	2011	Restated 2010
Domestic Volunteer Service Act Programs	\$ 249,235	\$ 241,732
National and Community Service Act Programs	434,821	401,622
Total Grant Funds Expended	<u>\$ 684,056</u>	<u>\$ 643,354</u>

Expenses by Major Responsibility Segment for the period ended September 30		
	<i>(dollars in thousands)</i>	
	2011	Restated 2010
AmeriCorps:		
State/National	\$ 633,975	\$ 598,513
NCCC	35,826	42,723
VISTA	<u>138,159</u>	<u>167,426</u>
Subtotal	\$ 807,960	\$ 808,662
National Senior Service Corps:		
Retired and Senior Volunteer Program	67,130	65,509
Foster Grandparent Program	118,900	120,738
Senior Companion Program	<u>\$ 51,318</u>	<u>\$ 49,567</u>
Subtotal	237,348	235,814
Learn and Serve America	33,261	37,539
Innovation, Demonstration, Assistance Activities	11,464	17,888
Office of Inspector General (OIG)	8,001	7,292
Total Expenses	<u>\$ 1,098,034</u>	<u>\$ 1,107,195</u>

Expenses by Type and Subprogram for the period ended September 30, 2011										
<i>(dollars in thousands)</i>										
Type	AmeriCorps			National Senior Service Corps			Learn & Serve	ID&A Activities	OIG	Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP				
Grant and Related Expense										
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
Total Grant and Related Expense	569,474	12,476	111,429	59,244	107,643	45,883	28,140	11,084	-	945,373
Administrative Expense										
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)
Total Administrative Expense	64,501	23,350	26,730	7,886	11,257	5,435	5,121	380	8,001	152,661
Total Expenses by Type	\$ 633,975	\$ 35,826	\$ 138,159	\$ 67,130	\$ 118,900	\$ 51,318	\$ 33,261	\$ 11,464	\$ 8,001	\$ 1,098,034

Expenses by Type and Subprogram for the period ended September 30, 2010										
<i>(dollars in thousands)</i>										
Restated Type	AmeriCorps			National Senior Service Corps			Learn & Serve	ID&A Activities	OIG	Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP				
Grant and Related Expense										
Grant funds expended	\$ 352,356	\$ -	\$ 27,636	\$ 58,906	\$ 110,326	\$ 44,864	\$ 31,412	\$ 17,854	\$ -	\$ 643,354
VISTA & NCCC stipends & benefits	-	7,630	94,224	-	-	-	-	-	-	101,854
Service award expense	190,499	4,685	22,209	-	-	-	374	-	-	217,767
Total Grant and Related Expense	542,855	12,315	144,069	58,906	110,326	44,864	31,786	17,854	-	962,975
Administrative Expense										
Federal employee salaries & benefits	33,360	10,554	6,690	2,743	5,211	2,165	3,475	-	4,053	68,251
Travel & transportation	1,115	3,186	3,225	787	1,439	621	108	-	197	10,678
Rent, communications, & utilities	4,527	6,238	1,011	406	773	321	263	-	383	13,922
Program analysis & evaluation	927	797	797	252	466	195	584	-	-	4,018
Printing & reproduction	131	101	65	28	35	14	11	-	1	386
Other services and expenses	14,920	7,630	11,437	2,321	2,362	1,335	1,266	34	2,580	43,885
Supplies & materials	262	1,879	71	25	46	19	18	-	78	2,398
Depreciation, amortization & loss on disposition of assets	354	20	52	35	68	28	24	-	-	581
Bad debt	62	3	9	6	12	5	4	-	-	101
Total Administrative Expense	55,658	30,408	23,357	6,603	10,412	4,703	5,753	34	7,292	144,220
Total Expenses by Type	\$ 598,513	\$ 42,723	\$ 167,426	\$ 65,509	\$ 120,738	\$ 49,567	\$ 37,539	\$ 17,888	\$ 7,292	\$ 1,107,195

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, 2011 and 2010, respectively, has been adjusted to reflect the fact that earned awards are not always used.

National Service Award Expense for the period ended September 30 <i>(dollars in thousands)</i>		
	2011	2010
Estimated education awards	\$ 188,599	\$ 210,769
Estimated interest forbearance	7,218	6,998
National Service Award Expense	\$ 195,817	\$ 217,767

NOTE 13 – CHANGE IN UNEXPENDED APPROPRIATIONS, NET

Unexpended Appropriations, Net as of September 30 <i>(dollars in thousands)</i>		
	2011	Restated 2010
Unexpended Appropriations, Beginning Balance	\$ 935,080	\$ 890,956
Increases:		
Appropriations Received, Net of Trust	1,077,733	1,149,721
Decreases:		
Appropriated Capital Used	(883,872)	(876,568)
Appropriations Transferred to Trust Fund (net of rescissions)	(199,260)	(197,000)
Program Funds Transferred to Trust	(1,940)	(2,659)
Rescissions and Cancellations	(51,653)	(29,370)
Total Decreases	(1,136,725)	(1,105,597)
Change in Unexpended Appropriations	(58,992)	44,124
Unexpended Appropriations, Ending Balance	\$ 876,088	\$ 935,080

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 15, 2011, 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, 2011 and 2010 were \$921,674 and \$791,757 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 2011 and 2010 were:

Consolidated Obligations Incurred through September 30 <i>(dollars in thousands)</i>			
Fiscal Year	Direct	Reimbursable	Total
2011	\$ 1,288,240	\$ 11,081	\$ 1,299,321
2010	\$ 1,403,065	\$ 10,459	\$ 1,413,524

NOTE 18 – RESTATEMENTS

CNCS restated its audited FY 2010 Consolidated Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows to correct an overstatement of its estimated accrued grant expense. The restatements had no effect on the FY 2010 Combined Statement of Budgetary Resources.

The cause of the restatements was an erroneous calculation of estimated accrued grant expense prepared by the Department of Health and Human Services’ Payment Management Division (HHS). Under an interagency agreement between CNCS and HHS, HHS manages CNCS’ grant payment activity and related Treasury reporting. Each quarter HHS provides CNCS with a grant accrual estimate to account for expenses not yet reported to HHS by CNCS’ grantees. At the end of the subsequent quarter, HHS provides the actual grant expense (to replace the previous estimate) and provides a new quarterly estimate. The estimate for the final quarter is used in CNCS’ annual financial statements to report the accrued cost of its grant programs at the close of the fiscal year. CNCS uses detailed transaction activity provided by HHS through an electronic interface to reflect actual grant activity on a daily basis for operational and program monitoring purposes.

HHS bases its estimate on historical cash drawdown and expense data. To provide CNCS with assurance that this data is reliable, HHS’ Office of Inspector General (OIG) conducts a SAS 70¹ audit of HHS’ operations and provides the results to CNCS on an annual basis. HHS OIG’s FY 2010 audit report disclosed no issue with the grant expense accrual process used by HHS and therefore could be relied on by CNCS when assessing the estimate for FY 2010.

In preparing the FY 2010 year-end financial statements, the adjustment provided by HHS was reviewed by CNCS and deemed to be a reasonable estimate. An increase in the end of year quarterly grant accrual estimate was expected because of a higher grant budget for the year (CNCS’ FY 2010 budget increased by \$229.9 million over FY 2009) and the effects of Recovery Act activity (CNCS received \$200 million in FY 2009 / FY 2010 Recovery Act funds). However, in January 2011 while reviewing the grant accrual estimate for the first quarter of 2011 CNCS noted that the estimate remained unexpectedly high. Corporation accounting staff contacted HHS to inquire about the high estimate. In June HHS acknowledged that its estimate was incorrect (because of a computational error). In July, HHS revised its grant expense estimate when it provided the data for the quarter ended June 30, 2011. During its year-end financial audit process the Corporation determined that because the effect was material to the FY 2010 financial statements the revised HHS estimate should be treated as a correction of an error rather than a change in estimate. While the effect of this change on the Net of Revenue over Expenses on the Statement of Operations is zero, the adjustment has a material effect on several line items. As a result the Corporation has restated its FY 2010 Consolidated Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows, and the related footnotes as shown below.

Consolidated Statement of Financial Position as of September 30, 2010			
<i>(dollars in thousands)</i>			
Financial Statement Line Item	Previously Reported	Restatements	Restated
Advances to Others	\$ 32,164	\$ 50,476	\$ 82,640
Total Assets	1,600,679	50,476	1,651,155
Grants Payable	252,892	(127,214)	125,678
Total Liabilities	665,753	(127,214)	538,539
Net Position	934,926	177,690	1,112,616
Total Liabilities and Net Position	1,600,679	50,476	1,651,155

¹On June 15, 2011, Statement on Standards for Attestation Engagements No. 16 (SSAE 16) effectively replaced the SAS-70 as the authoritative guidance for reporting on service organizations.

NOTE 18 – RESTATEMENTS – CONTINUED

The table below also shows the effects of certain reclassifications to the FY 2010 statements to break out Innovation Demonstration and Assistance Activities and to allocate pass-thru grants to the Senior Corps program for which they are associated.

Consolidated Statement of Operations and Changes in Net Position				
for the Period ended September 30, 2010				
<i>(dollars in thousands)</i>				
Financial Statement Line Item	Previously Reported	Restatements	Reclass	Restated
Revenue - Appropriated Capital Used	\$ 1,054,258	\$ (177,690)	\$ -	\$ 876,568
Revenue from Services Provided	2,486		8,788	11,274
Other Revenue	9,778	-	(8,788)	990
Total Revenue	1,273,469	(177,690)	-	1,095,779
Expenses - AmeriCorps	943,938	(123,625)	(11,651)	808,662
Expenses - SeniorCorps	280,157	(38,920)	(5,423)	235,814
Expenses - Learn & Serve America	53,316	(15,145)	(632)	37,539
Expenses - Innovation, Demonstration and Assistance	-	-	17,888	17,888
Expense - Pass Thru Grants	182	-	(182)	-
Total Expense	1,284,885	(177,690)	-	1,107,195
Net of Revenue Over Expense	(11,416)	-	-	(11,416)
Increase(Decrease) In Unexpended Appropriations Net	(133,566)	177,690		44,124
Increase (Decrease) in Net Position	(144,982)	177,690		32,708
Net Position Ending Balance	934,926	177,690		1,112,616

Consolidated Statement of Cash Flows for the Period ended September 30, 2010			
<i>(dollars in thousands)</i>			
Financial Statement Line Item	Previously Reported	Restatements	Restated
Appropriated Capital Used	\$ (1,054,258)	\$ 177,690	\$ (876,568)
Decrease (Increase) in Advances to Others	35,357	(50,476)	(15,119)
Increase (Decrease) in Grants Payable	147,808	(127,214)	20,594

REPORT ON INTERNAL CONTROL

To the Board of Directors and 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, 2011, and have issued our report dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of the Corporation is responsible for establishing, maintaining, 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 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 one 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

The Corporation did not have adequate internal controls in place to ensure that the grant accrual was reasonably estimated. The Corporation uses the Department of Health and Human Services' (HHS) Payment Management System to provide grant funds to grantees under a contractual arrangement. The Corporation receives the actual quarter's advances on the HHS Grant Accrual Spreadsheet Report and uses this amount to record accrued grant expenses at the end of each quarter. In fiscal year (FY) 2011, a mathematical error was identified in the HHS Grant Accrual Spreadsheet Reports that affected the December 2009 through March 2011 balances, which were used to estimate the grant accrual amount. The error originated at HHS and was subsequently transmitted to the Corporation in the HHS Grant Accrual Spreadsheet Reports.

The Corporation's management review procedures did not identify this error prior to the issuance of the FY 2010 financial statements. As a result of the error, Total Expenses were overstated by \$177.7 million and Net Position was understated by \$177.7 million; and Grants Payable and Advances to Others were overstated and understated by \$127.2 million and \$50.5 million, respectively, in the Corporation's FY 2010 financial statements.

Note 18, *Restatements*, to the FY 2011 financial statements discloses the full effect of the restatement on the Corporation's FY 2010 consolidated statement of financial position, consolidated statement of operations and changes in net position, and consolidated statement of cash flows.

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

STATUS OF PRIOR YEAR FINDINGS

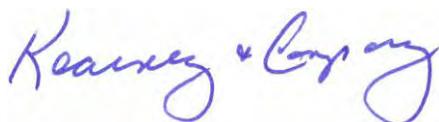
We noted issues related to the Corporation’s internal control over financial reporting, which we included in the Report on Internal Control included in the audit report on the Corporation’s FY 2010 financial statements¹. The table below summarizes the current year status of these issues.

Prior Year Significant Internal Control Deficiencies

Control Deficiency	FY 2010 Status	FY 2011 Status
Information Technology	Significant Deficiency	Management Letter
Fund Balance with Treasury	Significant Deficiency	Closed

* * * * *

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 U.S. 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 15, 2011

¹ *Independent Auditor’s Report on Internal Control, November 2010*

REPORT ON COMPLIANCE AND OTHER MATTERS

To the Board of Directors and 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, 2011, and have issued our report dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of 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. We limited our tests of compliance to these provisions; and 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 U.S. 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 15, 2011

APPENDIX

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



MEMORANDUM

DATE: November 14, 2011

TO: Robert Walters, Assistant Inspector General

FROM: William Anderson, Chief Financial Officer *William Anderson*

SUBJECT: Draft Report on the Corporation's FY 2011 Financial Statements

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 2011 financial statements. I am pleased that we can report that in FY 2011 CNCS maintained its record of strong fiscal stewardship for the American people. The Corporation received an unqualified "clean" opinion on its consolidated financial statements for the twelfth consecutive year. The audit also found no instance of noncompliance with laws and regulations.

I am also pleased that the two significant deficiencies in internal control contained in the FY 2010 report have been corrected. However, a new material weakness in financial reporting related to the restatement of the CNCS' FY 2010 financial statements was included this year. As noted in the Annual Financial Report, the Corporation disagrees that this was a material weakness in FY 2011 but will reduce its reliance on service provider audit reports as an internal control and has implemented enhanced review procedures to prevent a reoccurrence of the issue. Overall, I believe these results reflect CNCS' commitment to sound financial management and the hard work by staff over the past year to continuously improve financial operations.