Office of Inspector General
Corporation for National and Community Service

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2010 FINANCIAL STATEMENTS**

Audit Report Number 11- 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, 2010. 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, 2011, and complete its corrective actions by November 15, 2011. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General

Corporation for NATIONAL & COMMUNITY SERVICE

November 15, 2010

TO: Patrick A. Corvington
Chief Executive Officer

FROM: Kenneth Bach /s/
Acting Inspector General

SUBJECT: Audit of the Corporation for National and Community Service's Fiscal Year 2010 Financial Statements, OIG Audit Report Number 11-01

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, 2010 and 2009, 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;

- Two significant deficiencies 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, 2010, 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
Robert Velasco, Chief Operating Officer
William Anderson, Chief Financial Officer
Kristin McSwain, Chief of Program Operations
Wilsie Minor, Acting General Counsel
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
Tom Hanley, Acting Chief Information Officer
David Zavada, Engagement Partner, Kearney & Company

KEARNEY& COMPANY

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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, 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 (hereinafter referred to as the "financial statements") for the year 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 audit. The Corporation's financial statements as of September 30, 2009 were audited by other auditors, whose report dated November 10, 2009 expressed an unqualified opinion on those statements.

We conducted our audit of the financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

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

In our opinion, the consolidated statements of financial position, the consolidated statements of operations and changes in net position, the consolidated statements of cash flows, and the combined statements of budgetary resources, including the accompanying notes, present fairly, in all material respects, the financial position of the Corporation as of September 30, 2010, as well as its net income and changes in net position, cash flows, and changes in budgetary resources for the year then ended, in conformity with accounting principles generally accepted (GAAP) in the United States of America.

We were engaged for the purpose of forming an opinion on the basic financial statements taken as a whole. The Corporation's accompanying Management's Discussion and Analysis (MD&A) and other accompanying information are not required parts of the basic financial statements. This supplementary information is the responsibility of the Corporation's management. We applied certain limited procedures to the MD&A, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information; however, such information has not been subjected to the procedures applied in our engagement to audit the basic financial statements. Accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 15, 2010, 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, 2010. The purpose of the 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 audit.

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

Kearney & Company

Alexandria, Virginia
November 15, 2010

Corporation for National & Community Service

Fiscal Year 2010 and 2009

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements report the Corporation for National and Community Service's 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, 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.
- 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.

In addition, under the requirements of Executive Order 13331, the Corporation 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 2010 and 2009. For fiscal 2010, the Corporation's financial statements, for the eleventh consecutive year, received an unqualified opinion. This opinion recognizes that the Corporation's 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. The Corporation's 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)

		2010		2009
ASSETS				
Fund Balance with Treasury *(Note 2)*	$	998,408	$	950,532
Trust Investments and Related Receivables *(Note 3)*		565,195		519,838
Advances to Others		32,164		67,521
Accounts Receivable, Net *(Note 4)*		3,783		2,763
Property and Equipment, Net *(Note 5)*		1,129		1,709
Total Assets	**$**	**1,600,679**	**$**	**1,542,363**
LIABILITIES				
Trust Service Award Liability *(Note 6)*	$	379,878	$	324,067
Grants Payable		252,892		105,084
Accounts Payable		2,875		2,031
Actuarial FECA Liability *(Note 8)*		12,092		11,365
Other Liabilities		13,839		16,774
Accrued Annual Leave		4,163		3,120
Advances from Others		14		14
Total Liabilities		**665,753**		**462,455**
Contingencies *(Note 14)*				
NET POSITION (Note 9)		**934,926**		**1,079,908**
Total Liabilities and Net Position	**$**	**1,600,679**	**$**	**1,542,363**

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)

REVENUE	2010	2009
Appropriated Capital Used	$ 1,054,258	$ 770,708
Appropriations Transferred to the Trust Fund *(Note 10)*	199,659	174,932
Interest	7,288	12,236
Revenue from Services Provided	2,486	4,536
Other	9,778	8,062
Total Revenue	**1,273,469**	**970,474**
EXPENSES		
AmeriCorps	943,938	661,482
SeniorCorps	280,157	238,805
Learn and Serve America	53,316	47,812
Subtotal - Program Expenses	1,277,411	948,099
Pass-through Grants	182	682
Office of the Inspector General	7,292	6,045
Total Expenses *(Note 11)*	**1,284,885**	**954,826**
Net of Revenue Over Expenses	**$ (11,416)**	**$ 15,648**
NET POSITION		
Net of Revenue over Expenses	$ (11,416)	$ 15,648
Increase/(Decrease) in Unexpended Appropriations, Net *(Note 13)*	(133,566)	121,940
Increase/(Decrease) in Net Position, Net	(144,982)	137,588
Net Position, Beginning Balance	1,079,908	942,320
Net Position, Ending Balance *(Note 9)*	**$ 934,926**	**$ 1,079,908**

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)

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Net of Revenue over Expenses	$ (11,416)	$ 15,648
Adjustments Affecting Cash Flow:		
Depreciation, Amortization, and Loss on Disposition of Assets	580	1,334
Amortization of Premium/Discount on Investments	4,045	1,647
Appropriated Capital Used	(1,054,258)	(770,708)
Appropriations Received in Trust	(199,659)	(174,932)
Decrease/(Increase) in Accounts Receivable	(1,020)	(147)
Decrease/(Increase) in Interest Receivable	2,363	(141)
Decrease/(Increase) in Advances	35,357	(8,133)
Increase/(Decrease) in Accounts Payable and Other Liabilities	(2,091)	(2,626)
Increase/(Decrease) in FECA and Annual Leave Liabilities	1,770	(317)
Increase/(Decrease) in Capital Lease Liability	-	(250)
Increase/(Decrease) in Trust Liability	55,811	20,700
Increase/(Decrease) in Grants Payable	147,808	15,628
Total Adjustments	(1,009,294)	(917,945)
Net Cash Provided/(Used) by Operating Activities	**(1,020,710)**	**(902,297)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of Securities	905,140	844,999
Purchase of Securities	(956,905)	(882,739)
Net Cash Provided/(Used) in Investing Activities	**(51,765)**	**(37,740)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received, Net of Trust	1,149,721	1,090,866
Rescissions and Cancellations	(29,370)	(23,286)
Net Cash Provided by Financing Activities	**1,120,351**	**1,067,580**
Net Increase/(Decrease) in Fund Balance with Treasury	**47,876**	**127,543**
Fund Balance with Treasury, Beginning	**950,532**	**822,989**
Fund Balance with Treasury, Ending	**$ 998,408**	**$ 950,532**

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	**2010**	**2009**
Unobligated balance, brought forward, October 1	$ 187,608	$ 145,061
Recoveries of prior year unpaid obligations		
Actual	32,951	25,335
Anticipated	-	-
Budget authority:		
Appropriation		
Actual	1,366,207	1,273,580
Anticipated	-	-
Spending authority from offsetting collections:		
Collected	11,435	13,075
Change in receivables from Federal sources	-	(338)
Change in unfilled customer orders:		
Advance received	-	(276)
Without advance from Federal sources	-	(932)
Anticipated for rest of year	-	-
Total budget authority	1,377,642	1,285,109
Temporarily Not Available	-	-
Permanently not available	(29,370)	(23,286)
Total budgetary resources	**$ 1,568,831**	**$ 1,432,219**

STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 1,413,524	$ 1,244,611
Unobligated balance:		
Apportioned		
Currently Available	-	-
Subsequent Periods	50,497	104,506
Anticipated	-	-
Unobligated balance not available	104,810	83,102
Total status of budgetary resources	**$ 1,568,831**	**$ 1,432,219**

(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)

	2010	2009
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations, brought forward, October 1	$ 1,265,772	$ 1,150,605
Uncollected customer payments from Federal sources, brought forward, October 1	-	(1,270)
Total unpaid obligated balance, net	1,265,772	1,149,335
Obligations incurred, net	1,413,524	1,244,611
Gross outlays	(1,246,284)	(1,104,109)
Recoveries of prior year unpaid obligations, actual	(32,951)	(25,335)
Change in uncollected customer payments from Federal sources	-	1,270
Total unpaid obligated balance, net, end of period	**$ 1,400,061**	**$ 1,265,772**
Obligated balance, net, end of period:		
Unpaid obligations	$ 1,400,061	1,265,772
Uncollected customer payments from Federal sources	-	-
Total unpaid obligated balance, net, end of period	**$ 1,400,061**	**$ 1,265,772**
NET OUTLAYS		
Gross outlays	$ 1,246,284	1,104,109
Offsetting collections	(11,436)	(12,799)
Distributed offsetting receipts	(200,822)	(175,838)
Net outlays	**$ 1,034,026**	**$ 915,472**

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, public safety, human needs, and the environment 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.
- *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 2010 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, and Learn and Serve programs.
- *Salaries and Expenses,* from which the Corporation funded its general administrative expenses.

- 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 for fiscal years 2009 and 2010:

- 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, 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.
- 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, 2010, 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). Property and Equipment also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. 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

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 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 $403 and $419 thousand to the CSRS, and $9.6 and $7.8 million to FERS and TSP in fiscal years 2010 and 2009, 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.

W. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current year presentation.

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.

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 Corporation's 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 services;
- CGI Group, Inc. 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, 2010
(dollars in thousands)

Type	Unrestricted	Restricted	Total
Appropriated Funds	$ 997,549	$ -	$ 997,549
Trust Funds	-	241	241
Gift Funds	-	618	618
Total	**$ 997,549**	**$ 859**	**$ 998,408**

Fund Balance with Treasury as of September 30, 2009
(dollars in thousands)

Type	Unrestricted	Restricted	Total
Appropriated Funds	$ 949,192	$ -	$ 949,192
Trust Funds	-	452	452
Gift Funds	-	888	888
Total	**$ 949,192**	**$ 1,340**	**$ 950,532**

NOTE 2 – FUND BALANCE WITH TREASURY – CONTINUED

Unexpended Balances as of September 30, 2010
(dollars in thousands)

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
(dollars in thousands)

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**

Unexpended Balances as of September 30, 2009
(dollars in thousands)

Type	Unrestricted	Restricted	Total
FBWT	$ 949,192	$ 1,340	$ 950,532
Investments	-	519,838	519,838
Total	**$ 949,192**	**$ 521,178**	**$ 1,470,370**

Status of Unexpended Balances as of September 30, 2009
(dollars in thousands)

Type	Unrestricted	Restricted	Total
Unobligated:			
Available	$ 127,155	$ 13,763	$ 140,918
Unavailable	-	63,680	63,680
Obligated not yet Disbursed	822,037	443,735	1,265,772
Total	**$ 949,192**	**$ 521,178**	**$ 1,470,370**

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
(dollars in thousands)

	2010	2009
Investments, Carrying Value	$ 563,453	$ 515,733
Investment and Interest Receivable	1,742	4,105
Total	**$ 565,195**	**$ 519,838**

Amortized Cost and Fair Value of Investment Securities as of September 30, 2010
(dollars in thousands)

Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value
Notes	$ 310,307	$ 4,736	$ 315,043
Bills	253,146	52	253,198
Total	**$ 563,453**	**$ 4,788**	**$ 568,241**

Amortized Cost and Fair Value of Investment Securities as of September 30, 2009
(dollars in thousands)

Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value
Notes	$ 358,614	$ 3,571	$ 362,185
Bills	157,119	80	157,199
Total	**$ 515,733**	**$ 3,651**	**$ 519,384**

At September 30, 2010, the notes held at year-end had an interest rate range of 0.750% to 5.00% and an outstanding maturity period of approximately seven days to five years. The bills held at year-end had an interest rate range of 0.075% to 0.365% and were all due to mature within 217 days. The par values of these bills range from $.30 million to $46.14 million. The fair value of the bills and notes is based on bid and ask prices quoted by the Treasury as of September 30, 2010 and 2009.

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, 2010, $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
(dollars in thousands)

	2010		2009	
Held-to-Maturity Securities	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Due in 1 year or less	$ 332,181	$ 332,378	$ 426,683	$ 429,627
Due after 1 year up to 5 years	231,272	235,863	89,050	89,757
Total	**$ 563,453**	**$ 568,241**	**$ 515,733**	**$ 519,384**

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30
(dollars in thousands)

	Appropriated Funds	**Trust Fund**	**Total**
2010			
Accounts receivable	$ 4,357	$ 214	$ 4,571
Less: allowance for loss on receivables	(788)	-	(788)
Accounts Receivable, Net	**$ 3,569**	**$ 214**	**$ 3,783**

2009			
Accounts receivable	$ 2,875	$ 350	$ 3,225
Less: allowance for loss on receivables	(462)	-	(462)
Accounts Receivable, Net	**$ 2,413**	**$ 350**	**$ 2,763**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

General Property and Equipment as of September 30, 2010
(dollars in thousands)

Major Class	**(Years)**	**Cost**	**Depreciation**	**Value**
Equipment	3 - 10	$ 2,997	$ (1,868)	$ 1,129
ADP software	2	8,263	(8,263)	-
Total		**$ 11,260**	**$ (10,131)**	**$ 1,129**

NOTE 5 – PROPERTY AND EQUIPMENT, NET – CONTINUED

General Property and Equipment as of September 30, 2009 (dollars in thousands)							
Major Class	**(Years)**		**Cost**		**Depreciation**		**Value**
Equipment	3 - 10	$	2,996	$	(1,662)	$	1,334
Capital leases	3 - 5		-		-		-
ADP software	2		8,263		(7,888)		375
Total		**$**	**11,259**	**$**	**(9,550)**	**$**	**1,709**

Depreciation Expense for the period ending September 30 (dollars in thousands)				
Major Class		**2010**		**2009**
Equipment	$	206	$	121
Capital leases		-		(291)
ADP software		375		489
Total	**$**	**581**	**$**	**319**

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 (dollars in thousands)				
		2010		**2009**
Education awards	$	1,712,184	$	1,501,414
Interest forbearance		55,207		48,209
President's Freedom Scholarship Program		22,527		22,527
Total estimated service award liability		1,789,918		1,572,150
Less: cumulative awards paid		1,410,040		1,248,083
Total	**$**	**379,878**	**$**	**324,067**

NOTE 6 – TRUST SERVICE AWARD LIABILITY – CONTINUED

The net Service Award Liability as of September 30, 2010 increased by approximately $55.8 million from the net Service Award Liability as of September 30, 2009. This change was largely due to 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, these programs where not funded in fiscal year 2010, so there is no current liability for those educational awards.

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

(dollars in thousands)

	2010				2009			
Year	**Space**	**Vehicles**	**Other**	**Total**	**Space**	**Vehicles**	**Other**	**Total**
2010	$ -	$ -	$ -	$ -	$ 9,215	$ 504	$ 110	$ 9,829
2011	9,487	861	276	10,624	9,491	521	107	10,119
2012	9,781	820	266	10,867	9,776	539	99	10,414
2013	10,083	852	261	11,196	10,069	557	91	10,717
2014	10,395	885	264	11,544	10,371	576	90	11,037
2015	10,717	919	266	11,902	-	-	-	-
Total	**$ 50,463**	**$ 4,337**	**$ 1,333**	**$ 56,133**	**$ 48,922**	**$ 2,697**	**$ 497**	**$ 52,116**

NOTE 8 – ACTUARIAL FECA LIABILITY

The Corporation's actuarial liability for future workers' compensation benefits under FECA was $12.092 and $11.365 million as of September 30, 2010 and 2009, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. 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, 2010 (dollars in thousands)							
		Gift Fund		Trust Fund		Appropriated Funds	Total
Total unexpended appropriations	$	-	$	-	$	757,390	757,390
Cumulative results of operations		571		185,772		(8,807)	177,536
Total Net Position	**$**	**571**	**$**	**185,772**	**$**	**748,583**	**$ 934,926**

Net Position by Fund Balance Component as of September 30, 2009 (dollars in thousands)								
		Gift Fund		Trust Fund		Appropriated Funds		Total
Total unexpended appropriations	$	-	$	-	$	890,956	$	890,956
Cumulative results of operations		909		196,573		(8,530)		188,952
Total Net Position	**$**	**909**	**$**	**196,573**	**$**	**882,426**	**$**	**1,079,908**

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, 2010 (dollars in thousands)						
		Unrestricted		Temporarily Restricted		Total
Appropriated Funds	$	748,583	$	-	$	748,583
Trust Funds		-		185,772		185,772
Gift Funds		-		571		571
Total Net Position	**$**	**748,583**	**$**	**186,343**	**$**	**934,926**

Restrictions on Net Position as of September 30, 2009 (dollars in thousands)						
		Unrestricted		Temporarily Restricted		Total
Appropriated Funds	$	882,426	$	-	$	882,426
Trust Funds		-		196,573		196,573
Gift Funds		-		909		909
Total Net Position	**$**	**882,426**	**$**	**197,482**	**$**	**1,079,908**

NOTE 10 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST

For fiscal year 2010, the National Service Trust received $197.000 million under the Consolidated Appropriations Act, 2010 (Public Law 111-117). For fiscal year 2009, the National Service Trust received $131.075 million under the Omnibus Appropriations Act, 2009 (Public Law 111-8) and an additional $40.000 million under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). The Acts also authorized the Corporation to transfer additional amounts from subtitle C program funds to the National Service Trust if necessary to support the activities of national service participants. The Corporation transferred $2.659 million and $3.857 million to the Trust under this provision in fiscal year 2010 and 2009, 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 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 (NSSC) 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.

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 President's Freedom Scholarships are included in the National Service Award expense component.

Other Program Costs

National Service Award Expense – 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, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the President's Freedom Scholarship Program (see Note 12). No indirect costs have been allocated to the National Service Award expense component.

Pass-through Grants – the Corporation has reimbursable agreements with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these pass-through grants.

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

NOTE 11 – EXPENSES – CONTINUED

Components of Grant Funds Expended for the period ended September 30 *(dollars in thousands)*	**2010**	**2009**
Domestic Volunteer Service Act Programs	$ 297,662	$ 248,945
National and Community Service Act Programs	523,323	333,676
Pass-through Grants	182	682
Total Grant Funds Expended	**$ 821,167**	**$ 583,303**

Expenses by Major Responsibility Segment for the period ended September 30 *(dollars in thousands)*	**2010**		**2009**	
AmeriCorps:				
State/National	$ 722,332		$ 484,486	
NCCC	73,609		44,830	
VISTA	147,997		132,166	
Subtotal		$ 943,938		$ 661,482
National Senior Service Corps:				
Retired and Senior Volunteer Program	76,253		66,783	
Foster Grandparent Program	143,839		120,381	
Senior Companion Program	$ 60,065		$ 51,641	
Subtotal		280,157		238,805
Learn and Serve America		53,316		47,812
Pass-through Grants		182		682
Office of Inspector General (OIG)		7,292		6,045
Total Expenses		**$ 1,284,885**		**$ 954,826**

Expenses by Type and Subprogram for the period ended September 30, 2010

(dollars in thousands)

Type	AmeriCorps State/National	AmeriCorps NCCC	AmeriCorps VISTA	National Senior Service Corps RSVP	National Senior Service Corps FGP	National Senior Service Corps SCP	Learn & Serve	Pass-through Grants	OIG	Total
Grant and Related Expense										
Grant funds expended	$ 476,896	$ -	$ 39,307	$ 69,653	$ 133,365	$ 55,337	$ 46,427	$ 182	$ -	$ 821,167
VISTA & NCCC stipends & benefits	-	38,849	63,002	-	-	-	-	-	-	101,851
Service award expense	190,499	4,685	22,209	-	-	-	374	-	-	217,767
Total Grant and Related Expense	667,395	43,534	124,518	69,653	133,365	55,337	46,801	182	-	1,140,785
Administrative Expense										
Federal employee salaries & benefits	33,051	10,404	6,749	2,747	5,242	2,177	3,829	-	4,053	68,252
Travel & transportation	1,107	3,182	3,228	777	1,446	624	118	-	197	10,679
Rent, communications, & utilities	4,368	6,157	1,043	412	788	327	445	-	383	13,923
Program analysis & evaluation	925	796	797	249	469	196	586	-	-	4,018
Printing & reproduction	126	99	65	28	36	14	16	-	1	385
Other services and expenses	14,687	7,537	11,464	2,321	2,367	1,338	1,469	-	2,580	43,763
Supplies & materials	257	1,877	72	25	46	19	24	-	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	54,937	30,075	23,479	6,600	10,474	4,728	6,515	-	7,292	144,100
Total Expenses by Type	**$ 722,332**	**$ 73,609**	**$ 147,997**	**$ 76,253**	**$ 143,839**	**$ 60,065**	**$ 53,316**	**$ 182**	**$ 7,292**	**$ 1,284,885**

Expenses by Type and Subprogram for the period ended September 30, 2009

(dollars in thousands)

Type	AmeriCorps State/National	AmeriCorps NCCC	AmeriCorps VISTA	National Senior Service Corps RSVP	National Senior Service Corps FGP	National Senior Service Corps SCP	Learn & Serve	Pass-through Grants	OIG	Total
Grant and Related Expense										
Grant funds expended	$ 290,948	$ -	$ 29,413	$ 61,081	$ 111,055	$ 47,396	$ 42,728	$ 682	$ -	$ 583,303
VISTA & NCCC stipends & benefits	-	11,759	53,656	-	-	-	-	-	-	65,415
Service award expense	152,312	2,885	16,465	-	-	-	-	-	-	171,662
Total Grant and Related Expense	443,260	14,644	99,534	61,081	111,055	47,396	42,728	682	-	820,380
Administrative Expense										
Federal employee salaries & benefits	26,786	11,894	20,665	2,860	5,192	2,217	3,372	-	3,678	76,664
Travel & transportation	878	2,530	3,792	699	1,278	551	213	-	94	10,035
Rent, communications, & utilities	3,935	4,235	934	448	813	347	299	-	369	11,380
Program analysis & evaluation	744	677	677	218	392	168	507	-	-	3,383
Printing & reproduction	59	91	74	27	28	9	8	-	-	296
Other services and expenses	7,602	9,676	6,181	1,189	1,240	755	571	-	1,861	29,075
Supplies & materials	459	1,064	172	161	201	120	44	-	43	2,264
Depreciation, amortization & loss on disposition of assets	753	19	135	99	180	77	69	-	-	1,332
Bad debt	10	-	2	1	2	1	1	-	-	17
Total Administrative Expense	41,226	30,186	32,632	5,702	9,326	4,245	5,084	-	6,045	134,446
Total Expenses by Type	**$ 484,486**	**$ 44,830**	**$ 132,166**	**$ 66,783**	**$ 120,381**	**$ 51,641**	**$ 47,812**	**$ 682**	**$ 6,045**	**$ 954,826**

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, 2010 and 2009, 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
(dollars in thousands)

	2010	2009
Estimated education awards	$ 210,769	$ 166,160
Estimated interest forbearance	6,998	5,502
President's Freedom Scholarship Program	-	-
National Service Award Expense	**$ 217,767**	**$ 171,662**

NOTE 13 – CHANGE IN UNEXPENDED APPROPRIATIONS, NET

Unexpended Appropriations, Net as of September 30
(dollars in thousands)

	2010	2009
Unexpended Appropriations, Beginning Balance	$ 890,956	$ 769,016
Increases:		
Appropriations Received, Net of Trust	1,149,721	1,090,866
Decreases:		
Appropriated Capital Used	(1,054,258)	(770,708)
Appropriations Transferred to Trust Fund (net of recissions)	(197,000)	(171,075)
Program Funds Transferred to Trust	(2,659)	(3,857)
Recissions and Cancellations	(29,370)	(23,286)
Total Decreases	(1,283,287)	(968,926)
Change in in Unexpended Appropriations	(133,566)	121,940
Unexpended Appropriations, Ending Balance	**$ 757,390**	**$ 890,956**

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, 2010, 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, 2010 and 2009 were $791,757 and $894,283 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 a quarterly basis. Obligations incurred during FY 2010 and 2009 were:

Consolidated Obligations Incurred through September 30
(dollars in thousands)

Fiscal Year	Direct	Reimbursable	Total
2010	$ 1,403,065	$ 10,459	**$ 1,413,524**
2009	$ 1,232,085	$ 12,526	**$ 1,244,611**

KEARNEY&
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INDEPENDENT AUDITOR'S 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 statements of financial position of the Corporation for National and Community Service (the Corporation) as of September 30, 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 (hereinafter referred to as the "financial statements"), for the year then ended, and have issued our report dated November 15, 2010. We conducted our audit in accordance with audit 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.

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 financial statements. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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 in a timely manner.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted other matters involving internal control and its operations over financial reporting, which have been reported to the Corporation's management in a separate letter.

We consider the following deficiencies in the Corporation's internal control to be significant deficiencies.

Significant Deficiencies

I. Information Technology

The Corporation's information technology (IT) internal control structure for the general support systems and significant applications supporting the financial reporting process did not support a sound control environment related to application business processes, logical access, and audit log monitoring. Both the National Institute of Standards and Technology (NIST) and the Government Accountability Office (GAO) (in its Federal Information System Controls Audit Manual [FISCAM]) provide control objectives and evaluation techniques, which were utilized during our audit. The Corporation's IT control structure exhibited design and operational weaknesses that, when combined, are considered to be a significant deficiency. The deficiencies, in order of significance, are summarized below.

- The Corporation uses eSPAN and, in particular, the eGRANTS subsystem to process grant activity, payroll for Volunteers in Service to America (VISTA) volunteers, and vendor table maintenance actions that interface with the Corporation's core financial management system, Momentum. In reviewing and testing the eGRANTS interfaces, we identified several issues related to confidentiality controls over system logs, interfaced applications, generic user IDs, and passwords. For example, users of the eGRANTS system are capable of directly accessing the Momentum application using a generic user ID. The generic user ID has privileges to approve notice of grant awards and grant requests, create and modify vendors and related information in the vendor table, and approve certain transaction overrides. This deficiency increases the risk of unauthorized users gaining access to eSPAN and Momentum, processing unauthorized transactions, and viewing confidential information without being uniquely identified in the system logs.

- Password complexity related to the eSPAN and Momentum systems does not meet the Corporation's password complexity policy. Without enforcement of strong passwords, the eSPAN system is subject to a higher risk of unauthorized access.

- User accounts were not deactivated in a timely manner to prevent unauthorized access. Without removing access rights in a timely manner, terminated or separated users may continue to have access to systems without authorization. Additionally, the Corporation establishes "guest" accounts on the network for individuals who are not regular full-time employees, but have a need for access to the Corporation's systems. The procedures and controls for "guest" accounts issued to contractors are not effectively documented or readily available. The procedures and controls for activation and deactivation of these "guest" accounts are not documented, and the practices are inconsistently applied, which leads to the untimely deactivation of these accounts. Without timely removal of user accounts, the risk of unauthorized access to systems and key applications increases.

- System logs in the eSPAN system did not include sufficient information documenting actions recorded, which hampers the Corporation's review and response capabilities. The logs do not provide sufficient information to determine if the action was appropriate or needs further investigation. As a result, unauthorized activities captured in the system logs may not be identified and investigated in a timely manner.

- Incident handling policies and procedures were not provided to the eSPAN third-party servicer responsible for help desk activities. These policies and procedures should include steps for classifying, handling, and reporting incidents. Without properly disseminating clear and concise procedures, the Corporation and the third-party servicer may not properly escalate and provide notifications as required by legislation to protect personally identifiable information. In addition, violations may continue to occur that may jeopardize the information systems' and related resources' confidentiality, integrity, and availability.

- Users' system access requests must be based on a business need, and a system access request must be approved by the user's supervisor or manager. We were unable to determine that some Momentum user access request forms were approved by the supervisor, and system owner permissions were granted prior to assignments or alterations of user privileges and/or roles in Momentum. Without sufficient controls to ensure direct supervisors authorize their staff members' user access, the Corporation faces an increased risk of unauthorized access and inappropriate assignment of system rights and privileges.

- The Corporation had inadequate controls over ensuring proper segregation of duties. A Business Unit or Business Owner is assigned to authorize user access and privileges (i.e., roles) in the eSPAN system, which includes eGRANTS. We found that there is insufficient clarity regarding Business Owner assigning principles. During our review and walkthrough of the eSPAN account privilege approvals process, we noted that the personnel responsible for the assignment of roles to users in the eSPAN systems did not have access to role descriptions or documentation of incompatible roles. Without complete information and an effective monitoring process, proper segregation of duties may not exist.

Kearney has been informed that the Corporation implemented corrective actions to address some of these IT deficiencies in late fiscal year (FY) 2010 and early FY 2011. Kearney plans to test these corrective actions in FY 2011.

II. Fund Balance with Treasury

During the course of our audit, we identified deficiencies in the Fund Balance with Treasury (FBWT) reconciliation process that inhibited a full and complete reconciliation of differences between the Corporation's general ledger and the U.S. Department of the Treasury (Treasury) balances. Treasury guidance requires the Corporation to reconcile (at a transaction level) its FBWT balance in its general ledger with corresponding balances reported on the Government-Wide Accounting (GWA) Account Statement issued by Treasury. The reconciliation is required for each Treasury account symbol on at least a monthly basis. The FBWT reconciliation is a fundamental account reconciliation and an important control used to maintain financial integrity. If this reconciliation is not adequately performed, loss, fraud, and irregularities could occur and not be promptly detected, and/or financial reports that are inaccurate may be prepared and used in decision making. Adequate documentation should be maintained to support all reconciling items, and any reconciling differences identified should be researched and resolved in a timely manner. Adjustments should only be posted after the causes of the differences have been established and documented. During the course of our audit, we noted the following deficiencies related to the FBWT reconciliation process:

- The GWA ending balance for December 2009, which was reported on the Corporation's FBWT reconciliation, did not agree to the December 2009 ending balance reported on the GWA Account Statement, resulting in a difference of $1,331,389.04. The difference was the result of errors in the spreadsheet used to calculate the Corporation's FBWT reconciliation.

- As of December 31, 2009, the general ledger and Treasury's records differed by a net value of $464,834.56 and an absolute value of $1,276,980.18. The Corporation does not identify this difference by individual transactions or reconciling items. Developing a transaction-level listing of reconciling items is essential to performing a complete reconciliation, clearing differences timely, and obtaining adequate financial transparency and accountability. Corporation general ledger account balances were adjusted monthly to agree to Treasury balances.

The Corporation's monthly FBWT reconciliation template and corresponding procedures were designed throughout the year to perform the reconciliation by Agency Location Code rather than Treasury account symbol, which is required by the Treasury Financial Manual (TFM). The reconciliation does not allow the preparer and/or reviewer to view aggregate balances and any variances by Treasury account symbol, as indicated by TFM guidance. Additionally, on a monthly basis, differences between GWA and the general ledger remain unreconciled at the transaction level. The Corporation has taken action to address these deficiencies and enhance the documentation of the process to facilitate a complete and more transparent reconciliation. The efforts underway are intended to ensure differences between Treasury and the Corporation's general ledger are reconciled at a transaction level on a monthly basis. The Corporation has also taken steps to automate the FBWT reconciliation process in order to improve it.

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

Kearney & Company

Alexandria, Virginia
November 15, 2010

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INDEPENDENT AUDITOR'S 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 statements of financial position of the Corporation for National and Community Service (the Corporation) as of September 30, 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 (hereinafter referred to as the "financial statements"), for the year then ended, and have issued our report dated November 15, 2010. We conducted our audit in accordance with audit 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 complying with laws and regulations applicable to the Corporation.

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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We limited our tests of compliance and we did not test compliance with all laws and regulations applicable to the Corporation. Providing an opinion on compliance with certain 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 management of the Corporation, the Office of Inspector General, the Government Accountability Office, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Kearney & Company

Alexandria, Virginia
November 15, 2010

APPENDIX

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

MEMORANDUM

DATE: November 15, 2010

TO: Ken Bach, Acting Inspector General

FROM: William Anderson, Chief Financial Officer William Anderson

SUBJECT: Draft Report on the Corporation's FY 2010 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 (Corporation) FY 2010 financial statements. I am pleased that we can report that in FY 2010 the Corporation 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 eleventh consecutive year. We also achieved the distinction of no material weaknesses in internal control for the past ten years. These are tremendous accomplishments in light of the challenges, new mandates, and transitions that the Corporation has undertaken over the past two years. During FY 2010 the Corporation continued to automate and refine its financial processes to achieve greater efficiencies and future savings in operations. Some notable efforts undertaken during the year include:

- Successfully carrying out the Corporation's Recovery Act program and meeting new reporting and accountability requirements.
- Developing internal structures for Serve America Act implementation – with accountability, responsibility and extensive involvement across the Corporation – and implementing competitions for all new funded programs.
- Publishing a comprehensive Open Government Plan with aggressive milestones for publishing data on the Corporation's operations. The plan was recognized by outside reviewers as third best in the Federal government.
- Automating the process for submitting the Statement of Transactions (SF-224) to Treasury Through a financial system interface data is now directly uploaded to Treasury.
- Streamlining the Fund Balance with Treasury reconciliation process to allow more timely and accurate reconciliation. No temporary FACTS II adjustment was needed at fiscal year end.
- Automating the financial statement preparation process which includes extensive edit checks to ensure proper consolidation of data.

Staff and senior leadership across the agency are committed to sound, accountable, and transparent financial management and our stakeholders should have confidence in our efforts to further strengthen financial management practices at the Corporation moving forward.

Although there were no material weaknesses, the audit report did identify two areas of internal control as a significant deficiency. I have reviewed both carefully and determined that neither gives rise to a significant risk to the Corporation's operations. The first issue, regarding Information Technology, mostly dealt with staff not providing adequate documentation to the IT auditors. Follow up with IT staff found that most of the information requested is available and has been made available to the firm. There were also two instances where the auditors believe that an application did not enforce sufficiently strong password authentication. However, since you must first log into the Network using strong authentication, it was determined that the risk of not having strong passwords for these two internal applications was low. In any event, the Corporation implemented strong passwords in one (Momentum) and is scheduled to do so for the other application (eSPAN) in December. In addition, the Corporation added each of the IT findings to the appropriate Plans of Action and Milestones (POA&M) with a vulnerability impact of low, as the issues noted are also protected by compensating controls that are in place and working.

The second issue concerned the Corporation's reconciliation process for Fund Balance with Treasury (FBWT). The Corporation followed a reconciliation process at the Agency Location Code (ALC) and Treasury Account Symbol (TAS) level throughout the year. The Treasury Financial Manual specifies that the reconciliation is required only at the Treasury Account Symbol level. We exceeded the requirement on a monthly basis. Each month the Corporation summarized the reconciliation at the ALC level to facilitate management evaluation of where the discrepancies occurred. The Corporation also summarized the FBWT reconciliation at the TAS level for each of our quarterly reporting periods. Documentation supporting the reconciliation and adjustments is maintained by the reconciliation team. This information was used to post adjustments to the trial balance on a quarterly basis so that our cash position was fairly stated on the quarterly financial statements.

The FBWT reconciliation process used in past years and for the majority of FY 2010 was labor intensive. To reduce the impact on staff and to improve the process the Corporation began an initiative in November 2009 to streamline and automate the FBWT reconciliation. Under the automated process (implemented prior to year end and in effect as we prepared our annual financial statements) the Corporation can accurately reconcile FBWT within a day of Treasury making the Government-wide Accounting Program (GWA) cash balances available to agencies. It also allows the Corporation to post adjustments as part of our SF-224 submission in the current month. The audit trail for the automated process also makes it much easier for staff to research and reconcile any variances.

This is a significant enhancement to our research ability as well as necessary preparation for Treasury's implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) scheduled for 2013. Once GTAS is implemented there will be no manual SF-224 submissions. All cash activity will flow directly from trial balance submissions in GTAS. Our new automated process will allow the continued proper reporting of funds usage against our appropriations once GTAS is implemented. These efficiencies have put us in a solid position to implement GTAS from a cash reporting perspective as well as improving the timing of our reporting while reducing the manual effort required to provide our standard high quality reporting.

Finally, I would like to take this opportunity to thank the financial management professionals throughout the agency for their dedication and hard work throughout the past year. Their efforts ensure that we deliver the most accurate, transparent, and useful financial information possible.