

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

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2016
NATIONAL SERVICE TRUST FUND
FINANCIAL STATEMENTS**

OIG REPORT 17-02



Prepared by:


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

This report was issued to Corporation management on November 14, 2016.



November 14, 2016

TO: Wendy Spencer
Chief Executive Officer

FROM: Stuart Axenfeld 
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2016 National Service Trust Fund Financial Statements,
OIG Report 17-02

We contracted with the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Corporation for National and Community Service's (Corporation) National Service Trust Fund financial statements (Trust financial statements) as of September 30, 2016 and 2015, and for the years then ended. The contract required that the audit be performed in accordance with the *Government Auditing Standards* and applicable Office of Management and Budget guidance.

In its audit, Kearney found that the Trust financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with United States generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Trust financial statements.

Kearney is responsible for the attached independent auditor's report, dated November 14, 2016, and the conclusions expressed therein. However, our review disclosed no instances where Kearney did not comply, in all material respects, with United States generally accepted government auditing standards.

Attachment

cc: Asim Mishra, Chief of Staff
Jeremy Joseph, General Counsel
Jeffrey Page, Chief Operating Officer and Chief Financial Officer
Tom Hanley, Chief Information Officer
Lori Giblin, Chief Risk Officer
David Zavada, Engagement Partner, Kearney & Company, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Trust Financial Statements

We have audited the accompanying financial statements of the Corporation for National and Community Service (CNCS) National Service Trust Fund (Trust), which comprise the statements of financial position as of September 30, 2016 and 2015, the related statements of operations and changes in net position, the statements of cash flows, and the combined statements of budgetary resources (SBR) (hereinafter referred to as the "Trust financial statements") for the years then ended, as well as the related notes to the Trust financial statements.

Management's Responsibility for the Trust Financial Statements

Management is responsible for the preparation and fair presentation of the Trust financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Trust financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the Trust financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Trust financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Trust financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Trust financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting

estimates made by management, as well as evaluating the overall presentation of the Trust financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Trust financial statements referred to above present fairly, in all material respects, the financial position of CNCS's Trust as of September 30, 2016 and 2015, as well as its net cost of operations and changes in net position, cash flows, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the Trust financial statements, the 2004 Executive Order, entitled "National and Community Service Programs" (E.O. 13331), requires a statement of assurance in CNCS's Management Representation Letter by the Chief Executive Officer and Chief Financial Officer that its financial statements, including the SBR, are accurate and reliable. CNCS has interpreted this requirement to include presenting the Trust SBR as a principal financial statement. CNCS's Trust SBR is prepared in accordance with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the Trust financial statements taken as a whole. The information contained in the National Service Trust Fund Status Report – September 2016, *Other Information*, section of the Fiscal Year 2016 Agency Financial Report is presented for purposes of additional analysis and is not a required part of the Trust financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the Trust financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 14, 2016, on our consideration of CNCS's internal control over financial reporting and on our tests of CNCS's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2016. The purpose of those reports is to describe the scope of our testing of



internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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. 15-02 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 14, 2016

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
NATIONAL SERVICE TRUST FUND**

**FISCAL YEAR 2016 AND 2015
FINANCIAL STATEMENTS**

(Extracted From Fiscal Year 2016 Agency Financial Report)

National Service Trust Financial Statements

Corporation for National and Community Service
National Service Trust Statement of Financial Position
As of September 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Assets		
Fund Balance with Treasury (Note 2)	\$ 4,027	\$ 8,420
Investments and Related Receivables (Note 3)	822,652	751,464
Accounts Receivable, Net (Note 4)	200	261
Total Assets	\$ <u>826,879</u>	\$ <u>760,145</u>
Liabilities		
Service Award Liability (Note 5)	\$ 396,344	\$ 454,890
Net Position		
Cumulative Results of Operations (Note 6)	<u>430,535</u>	<u>305,255</u>
Total Liabilities and Net Position	\$ <u>826,879</u>	\$ <u>760,145</u>

The accompanying footnotes are an integral part of these financial statements

Corporation for National and Community Service
National Service Trust Statement of Operations and Changes in Net Position
For the Periods Ended September 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Revenue		
Appropriations Received by the National Service Trust (Note 7)	\$ 220,000	\$ 209,618
Transfer in Program Funds	21,352	7,889
Interest	3,964	2,747
Other Revenue	3,185	5,894
Total Revenue	\$ 248,501	\$ 226,148
Expenses		
Service Award Expense (Note 8)	\$ 123,159	\$ 191,575
Write off/Recovery of Receivables	62	(33)
Other Expenses	-	28
Total Expenses	123,221	191,570
Net of Revenue Over Expenses	\$ 125,280	\$ 34,578
Net Position		
Net of Revenue Over Expenses	\$ 125,280	\$ 34,578
Net Position, Beginning Balance	305,255	270,677
Net Position, Ending Balance (Note 6)	\$ 430,535	\$ 305,255

The accompanying footnotes are an integral part of these financial statements.

Corporation for National and Community Service
National Service Trust Statement of Cash Flows
For the Periods Ended September 30
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net of Revenue Over Expenses	\$ 125,280	\$ 34,578
Adjustments Affecting Cash Flow:		
Amortization of Premium/Discount on Investments	(197)	(1,606)
Appropriations Received in Trust	(241,352)	(217,507)
Decrease/(Increase) in Accounts Receivable	61	(32)
Decrease/(Increase) in Interest Receivable	(305)	182
Increase/(Decrease) in Trust Liability	(58,546)	759
Total Adjustments	(300,339)	(218,204)
Net Cash Provided/(Used) by Operating Activities	(175,059)	(183,626)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Securities	1,129,620	981,391
Purchase of Securities	(1,200,306)	(1,013,458)
Net Cash Provided/(Used) in Investing Activities	(70,686)	(32,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received, Net of Trust	241,352	217,507
Net Cash Provided by Financing Activities	241,352	217,507
Net Increase/(Decrease) in Fund Balance with Treasury	(4,393)	1,814
Fund Balance with Treasury, Beginning	8,420	6,606
Fund Balance with Treasury, Ending (Note 2)	\$ 4,027	\$ 8,420

The accompanying footnotes are an integral part of these financial statements.

Corporation for National and Community Service
National Service Trust Statement of Budgetary Resources
For the Periods Ended September 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Budgetary Resources		
Unobligated, balance brought forward, October 1	\$ 123,532	\$ 99,021
Appropriation Discretionary (trust funds)	241,352	217,507
Appropriation Mandatory (trust funds)	3,461	3,933
Appropriations (discretionary and mandatory)	244,813	221,440
Spending authority from offsetting collections	3,185	5,894
Total Budgetary Resources	\$ 371,530	\$ 326,355
Status of budgetary resources		
New obligations and upward adjustments	\$ 172,898	\$ 202,823
Unobligated balance, end of year		
Apportioned, unexpired accounts (Note 2)	198,628	73,335
Unapportioned, unexpired accounts (Note 2)	4	50,197
Total unobligated balance, end of year	198,632	123,532
Total Budgetary Resources	\$ 371,530	\$ 326,355
Change in Obligated Balance		
Unpaid obligations		
Unpaid obligations, brought forward, October 1	\$ 635,320	\$ 623,340
New obligations and upward adjustments	172,898	202,823
Outlays (gross)	(181,706)	(190,843)
Unpaid Obligations, end of year	\$ 626,512	\$ 635,320
Memorandum (non-add) entries:		
Obligated balance, start of year	\$ 635,320	\$ 623,340
Obligated balance, end of year (Note 2)	\$ 626,512	\$ 635,320
Budget Authority and Outlays, net		
Budgetary authority, gross (discretionary and mandatory)	\$ 247,998	\$ 227,334
Actual offsetting collections	(3,185)	(5,894)
Budget Authority, net (discretionary and mandatory)	\$ 244,813	\$ 221,440
Outlays, gross (discretionary and mandatory)	181,706	190,843
Actual offsetting collections	(3,185)	(5,894)
Outlays, net (discretionary and mandatory)	\$ 178,521	\$ 184,949
Distributed offsetting receipts	(241,352)	(217,507)
Agency Outlays, net (discretionary and mandatory)	\$ (62,831)	\$ (32,558)

The accompanying footnotes are an integral part of these financial statements.

Footnotes for National Service Trust Financial Statements

NOTE 1—Summary of Significant Accounting Policies

A. REPORTING ENTITY

The National Service Trust Fund (the Trust) was established by the National and Community Service Trust Act of 1993 (The Act), 42 USC 12601, et seq. to provide funds for Segal AmeriCorps Education Awards for eligible participants who complete AmeriCorps service. The activities of the Trust are funded primarily through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriations Act, which funds National and Community Service Act programs. Appropriations are provided on a no-year basis for the Trust, a fund within the Corporation used to provide education awards and student loan interest forbearance to eligible participants. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible purposes.

The Trust provides awards for AmeriCorps members serving in approved national service positions under AmeriCorps State and National, AmeriCorps NCCC, and AmeriCorps VISTA, as well as for the AmeriCorps Education Award Program, where sponsoring organizations are responsible for providing member subsistence and other costs, and the Corporation provides an education award and a small amount for administrative costs. Programs have up to two years after award to enroll members in positions.

Funds from the Trust may be expended for the purpose of providing an education award or student loan interest forbearance payment and must always be paid 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 Trust may also expend funds for payments under the President's Freedom Scholarship Program as authorized under various Corporation appropriations through fiscal 2007.

B. BASIS OF ACCOUNTING

The Statements of Financial Position; Operations and Changes in Net Position, Cash Flows and Budgetary Resources have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as required by the Government Corporation Control Act (Act) and Executive Order 13331, National and Community Service Programs.

C. FINANCIAL STATEMENT PRESENTATION AND CONSOLIDATION POLICY

The accompanying financial statements report CNCS'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 CNCS 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 CNCS'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 CNCS'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 standard

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, CNCS 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 Combined Statement of Budgetary Resources presents additional details to include activity that is significant to the CNCS.

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

D. BUDGETS AND BUDGETARY ACCOUNTING

The activities of the National Service Trust Fund are primarily funded through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriation Act. CNCS'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

CNCS values its investments at carrying value and discloses fair value. As of September 30, 2016, the carrying amounts of Fund Balance with Treasury, Accounts Receivable, Accrued Interest Receivable, and Liabilities approximate their fair value.

F. FUND BALANCE WITH TREASURY

CNCS considers Fund Balance with Treasury (FBWT) to represent cash and cash equivalents. It is CNCS's cash accounts with the Department of the Treasury (the Treasury). The Treasury processes cash receipts and disbursements on behalf of CNCS and CNCS's accounting records are reconciled with those of the Treasury on a regular basis. The FBWT maintained in the National Service Trust is restricted to specific purposes, such as paying service awards earned by eligible participants, and is not available for use in the current operations of CNCS.

G. INVESTMENTS AND RELATED RECEIVABLES

By law, CNCS 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 and bills.

Since they are expected to be held-to-maturity, CNCS'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, and are amortized using the level yield/effective interest method for the notes and straight line method for the bills. 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 CNCS. Such interest, if any, at year-end is included in the interest receivable balance.

H. CASH EQUIVALENTS

For purposes of the statement of cash flows, CNCS considers all interest-bearing Treasury securities guaranteed by the United States to be cash equivalents.

I. ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due to CNCS primarily related to grantee audit resolution determinations. An allowance for doubtful accounts is established for reporting purposes based on past experience.

J. 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 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 CNCS' historical experience.

K. ACCOUNTS PAYABLE

CNCS 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 CNCS, but not paid for at the end of the fiscal year.

L. NET POSITION

Net Position represents Net Assets and is comprised of cumulative results of operations. Cumulative results of operations represent the net differences between revenues and expenses from the inception of CNCS.

M. REVENUE RECOGNITION

Appropriation Used. CNCS 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 CNCS 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 CNCS 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 level yield/effective interest method for the notes and straight line method for the bills.

Revenue from Services Provided. CNCS 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 Treasury to the credit of the Gifts and Contributions Fund.

N. INCOME TAXES

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

O. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires CNCS to make estimates and assumptions about future events. These estimates and assumptions affect the amounts reported in CNCS's financial statements and accompanying notes. CNCS 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.

P. COMPARATIVE DATA

Certain FY 2015 amounts have been reclassified to conform to the FY 2016 presentation.

Q. CONCENTRATION OF RISKS

Congress annually considers whether to fund CNCS's program and operational activities. Should Congress opt not to enact appropriations to fund them, CNCS would be unable to continue operations of the National Service Trust Fund once funds are exhausted for their intended purpose. Corporation management believes the risk of such an occurrence is remote.

NOTE 2 – Fund Balance with Treasury

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of Trust Funds of \$4.0 million in FY 2016 and \$8.4 million in FY 2015 that are considered restricted.

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.

Fund Balance with Treasury as of September 30 <i>(dollars in thousands)</i>			
Type		2016	2015
Obligated Not Yet Disbursed	\$	626,512	\$ 635,320
Unobligated Available		198,628	73,335
Unobligated Unavailable		4	50,197
Investment*		(821,117)	(750,432)
Total	\$	<u>4,027</u>	<u>\$ 8,420</u>

* *Investments include purchases, sales, premiums, and discounts*

NOTE 3 – Investments and Related Receivables

Investments and Related Receivables as of September 30 (dollars in thousands)			
	2016		2015
Investments, Carrying Value	\$821,860	\$	750,977
Interest Receivable	792		487
Total	<u>\$ 822,652</u>	<u>\$</u>	<u>751,464</u>

Amortized Cost and Fair Value of Investment Securities as of September 30, 2016 (dollars in thousands)				
Securities	Amortized Cost	Unrealized Gains/(Losses)		Fair Value
Notes	\$ 541,519	\$ 463	\$	541,982
Bills	280,341	47		280,388
*Total	<u>\$ 821,860</u>	<u>\$ 510</u>	<u>\$</u>	<u>822,370</u>

Amortized Cost and Fair Value of Investment Securities as of September 30, 2015 (dollars in thousands)				
Securities	Amortized Cost	Unrealized Gains/(Losses)		Fair Value
Notes	\$ 328,823	\$ 652	\$	329,475
Bills	422,154	142		422,296
Total	<u>\$ 750,977</u>	<u>\$ 794</u>	<u>\$</u>	<u>751,771</u>

As of September 30, 2016, the notes held at year-end had an interest rate range of 0.375% to 0.875% and an outstanding maturity period of approximately 31 days to 2.5 years. The bills held at year-end had an interest rate range of 0.215% to 0.535% and were all due to mature within 364 days. The par values of notes range from \$3.6 million to \$148.3 million. The fair value of the bills and notes is based on bid and ask prices quoted by Treasury as of September 30, 2016 and 2015.

Since FY 2003, CNCS 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, 2016, \$50.2 million of CNCS's investment account has been set aside for this reserve.

NOTE 3 – Investments and Related Receivables---Continued

Maturation of Securities Held as of September 30 <i>(dollars in thousands)</i>				
Held- to- Maturity Securities	2016		2015	
	Amortized Costs	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$ 721,874	\$ 722,133	\$ 523,225	\$ 523,435
Due after 1 year up to 5 years	99,986	100,237	227,752	228,336
Total	<u>\$ 821,860</u>	<u>\$ 822,370</u>	<u>\$ 750,977</u>	<u>\$ 751,771</u>

NOTE 4 –Accounts Receivables, Net

Accounts Receivable as of September 30 (dollars in thousands)			
	Trust Fund		Total
2016			
Accounts receivable	\$	305	\$ 305
Less: allowance for doubtful accounts		(105)	(105)
Accounts Receivable, Net	\$	<u>200</u>	<u>\$ 200</u>
2015			
Accounts receivable	\$	355	\$ 355
Less: allowance for doubtful accounts		(94)	(94)
Accounts Receivable, Net	\$	<u>261</u>	<u>\$ 261</u>

NOTE 5 – Trust Service Award Liability

GAAP requires the recording of a liability, which is at a point in time estimate, for the unpaid earned and expected-to-be-earned education award and interest forbearance costs that are likely to be paid. GAAP estimates are for members who have already completed at least 15 percent of the minimum service requirement and who therefore, have served enough hours to qualify for at least a partial education awards.

The estimate of the Service Award Liability under GAAP includes factors that take account the effect of members who enroll but do not earn an award and members who enroll but do not earn an award but do not use it within the period of availability. CNCS estimates that up to 86 percent of members earning an award will eventually use it.

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 Education award must be used within seven years of completion date of an approved term of national service. If the education award is a transferred award or Summer of Service award the use period will be ten years. These awards are paid from the National Service Trust Fund.

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>		
	2016	2015
Education awards	\$ 2,736,947	\$ 2,647,027
Interest forbearance	112,005	103,258
President's Freedom Scholarship Program	<u>21,643</u>	<u>22,527</u>
Total estimated Service Award Liability	2,870,595	2,772,812
Less: cumulative awards paid	(2,474,251)	(2,317,922)
Total	<u>\$ 396,344</u>	<u>\$ 454,890</u>

The Net Service Award Liability as of September 30, 2016 decreased by approximately \$58.6 million from the Net Service Award Liability as of September 30, 2015. A large portion of this reduction, approximately \$48.6 million, is attributed to a revised statistical method. The remaining reduction is due to current year award payments and expirations in excess of current year enrollments.

NOTE 6 – Net Position

Net position consists of cumulative results of operations. The cumulative result of operations for the Trust Fund was \$ 430.5 million in FY 2016 and \$305.3 million in FY 2015, respectively.

CNCS is required to report information regarding its financial position according to three classes of net assets (net position): unrestricted, temporarily restricted and permanently restricted. CNCS has no permanently restricted assets. The financial position of the Trust Fund in the amounts of \$430.5 million in FY 2016 and \$305.3 million in FY 2015 is temporarily restricted.

NOTE 7 – Appropriations Received by the National Service Trust

For FY 2016, the National Service Trust received \$220.0 million under the Consolidated Appropriations Act, 2016 (Public Law 114-113). For FY 2015, the National Service Trust received \$209.6 million under the Consolidated Appropriations Act, 2015 (Public Law 113-235). The acts also authorized CNCS to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. CNCS transferred \$ 21.4 million and \$ 7.9 million to the Trust under this provision in FY 2016 and FY 2015, respectively. Accordingly, the National Service Trust received a total funding of \$241.4 million in FY 2016, and \$217.5 million in FY 2015, respectively.

NOTE 8 – Expenses

Effective FY 2016, CNCS used a revised cost accounting methodology to allocate the costs among its major programs and at the sub-program level.

The National Service Award Expense component consists of CNCS'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.

Expenses by Sub-Program for the Period Ended September 30, 2016 <i>(dollars in thousands)</i>					
Type	State/National	AmeriCorps			Total
		NCCC	VISTA		
Service Award Expense	\$ 82,886	\$ 14,902	\$ 25,371	\$	123,159
Total Expenses	\$ 82,886	\$ 14,902	\$ 25,371	\$	123,159

Expenses by Sub-Program for the Period Ended September 30, 2015 <i>(dollars in thousands)</i>					
Type	State/National	AmeriCorps			Total
		NCCC	VISTA		
Service Award Expense	\$ 164,878	\$ 4,808	\$ 21,889	\$	191,575
Total Expenses	\$ 164,878	\$ 4,808	\$ 21,889	\$	191,575

NOTE 9 – Subsequent Events

CNCS has evaluated subsequent events through November 14, 2016 which is the date these financial statements were available to be issued. As a consequence of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

NOTE 10—Undelivered Orders at Fiscal Year-End

Trust Fund undelivered orders at September 30, 2016 and 2015 were \$230.2 million and \$180.4 million, respectively.

APPENDIX

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



Memorandum

Date: November 14, 2016

To: Deborah Jeffrey, Inspector General

From: Jeffrey Page, Chief Financial Officer

Subject: Independent Auditor's Report

Thank you for the opportunity to respond to the results of your audit of CNCS's Independent Auditor's Report. CNCS concurs with the conditions and recommendations it contains.

CNCS remains committed to improving the agency's internal control framework. While the agency has moved forward in addressing these recommendations, management is confident that the newly created Office of the Chief Risk Officer (OCRO) will begin to provide depth and structure to the nascent program. The Chief Risk Officer (CRO) is currently implementing a departmental work plan that will not only ensure consistent governance and communication on the status of risk mitigation but also provide the agency with the reporting it needs to strengthen its assurance over the effectiveness and efficiency of internal controls across the corporation.