

SECTION 3

FINANCIAL SECTION

A Message from the Chief Financial Officer



The National Archives and Records Administration has received an unqualified “clean” audit opinion on its FY 2012 financial statements. I am happy to report that this year’s audit opinion resolves the material weakness over financial reporting that was included in NARA’s FY 2011 audit report.

During the course of FY 2012, NARA financial management staff dedicated significant effort to addressing the conditions that led to last year’s material weakness and enhancing internal controls over financial reporting. It is to their credit that NARA has removed the material weakness for FY 2012. It is worth noting that the FY 2011 material weakness was the result of erroneous financial reporting in FY 2010; that error was corrected with a restatement in FY 2011 and does not carry-forward into the FY 2011 and 2012 financial statements.

I can provide reasonable assurance that the objectives of section 2 of the Federal Managers’ Financial Integrity Act have been achieved. I am confident that NARA’s improved internal controls will ensure the integrity and reliability of NARA financial reports going forward.

A handwritten signature in black ink, appearing to read "Micah M. Cheatham". The signature is fluid and cursive, with a long horizontal stroke at the end.

Micah M. Cheatham
Chief Financial Officer

Financial Statements and Auditor's Report

Principal Statements

Consolidated Balance Sheet As of September 30, 2012 and 2011 (in thousands)

	2012	2011
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 217,600	\$ 240,713
Investments (Note 3)	14,525	9,204
Accounts receivable (Note 4)	15,130	14,350
Total intragovernmental	247,255	264,267
Cash	52	54
Investments (Note 3)	31,558	27,954
Accounts receivable, net (Note 4)	373	512
Inventory, net (Note 5)	1,055	1,029
General property, plant and equipment, net (Note 6)	378,001	452,780
Deferred Assets	651	710
Total assets	\$ 658,945	\$ 747,306
Stewardship PP&E (Note 7)		-
Liabilities		
Intragovernmental		
Accounts payable	\$ 4,620	\$ 5,216
Other (Note 8,10,11)	5,453	4,387
Total intragovernmental	10,073	9,603
Accounts payable	42,758	49,699
Debt held by the public (Note 8, 9)	151,585	166,895
Federal employee benefits-actuarial FECA (Note 8)	10,798	10,865
Other (Note 8, 10)	19,636	21,285
Total liabilities	234,850	258,347
Commitments and Contingencies (Note 12)	-	-
Net Position		
Unexpended appropriations - other funds	157,977	167,447
Cumulative results of operations - earmarked funds (Note 13)	43,686	36,841
Cumulative results of operations - other funds	222,432	284,671
Total net position	\$ 424,095	\$ 488,959
Total liabilities and net position	\$ 658,945	\$ 747,306

The accompanying notes are an integral part of these statements

Consolidated Statement of Net Cost
For the years ended September 30, 2012 and 2011

(in thousands)

	2012	2011
Program Costs (Note 14)		
Archives and records management activities		
Gross costs	\$ 437,712	\$ 418,855
Less: Earned revenues	(612)	(280)
Total net archives and records management activities program costs	437,100	418,575
Trust and Gift Funds		
Gross costs (excluding heritage asset renovation)	13,851	14,901
Heritage asset renovation costs (Note 15)	2,757	-
Less: Earned revenues	(18,808)	(16,481)
Total net trust and gift fund costs	(2,200)	(1,580)
National historical publications and records commission grants		
Gross costs	9,686	8,408
Less: Earned revenues	-	-
Total net national historical publications and records commission grants program costs	9,686	8,408
Archives facilities and presidential libraries repairs and restoration		
Gross costs (excluding heritage asset renovation)	567	1,468
Heritage asset renovation costs (Note 15)	19,125	23,518
Less: Earned revenues	-	-
Total net archives facilities and presidential libraries repairs and restoration program costs	19,692	24,986
Revolving fund records center storage and services		
Gross costs	189,280	184,894
Less: Earned revenues	(176,351)	(172,793)
Total net revolving fund records center storage and services program costs	12,929	12,101
Net Cost of Operations	\$ 477,207	\$ 462,490

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position
For the year ended September 30, 2012
(in thousands)

	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations			
Beginning Balance	\$ 36,841	\$ 284,671	\$ 321,512
Adjustments			
Corrections of errors (Note 6)	-	(1,311)	(1,311)
Beginning balance, as adjusted	36,841	283,360	320,201
Budgetary Financing Sources			
Appropriations Used	-	396,934	396,934
Nonexchange Revenue	576	-	576
Donations and forfeitures of cash and cash equivalents	5,363	-	5,363
Transfers-in/out without reimbursement	(532)	532	(0)
Other	265	-	265
Other Financing Sources (Non-Exchange)			
Imputed financing	469	18,769	19,238
Other	748	-	748
Total Financing Sources	6,889	416,235	423,124
Net Cost of Operations	44	477,163	477,207
Net Changes	6,845	(60,928)	(54,083)
Cumulative Results of Operations	43,686	222,432	266,118
Unexpended Appropriations			
Beginning Balance	-	167,447	167,447
Budgetary Financing Sources			
Appropriations received	-	391,500	391,500
Other adjustment		(4,036)	(4,036)
Appropriations used	-	(396,934)	(396,934)
Total Budgetary Financing Sources	-	(9,470)	(9,470)
Total Unexpended Appropriations	-	157,977	157,977
Net Position	\$ 43,686	\$ 380,409	\$ 424,095

The elimination column is omitted as no elimination activity impacts this statement.

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position
For the year ended September 30, 2011
(in thousands)

	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations			
Beginning Balance	\$ 36,961	\$ 266,111	\$ 303,072
Budgetary Financing Sources			
Appropriations Used	-	456,728	456,728
Nonexchange Revenue	636	-	636
Donations and forfeitures of cash and cash equivalents	989	-	989
Transfers-in/out without reimbursement	(585)	585	-
Other	394	-	394
Other Financing Sources (Non-Exchange)			
Donations and forfeitures of property	60	-	60
Transfers-in/out without reimbursement	(60)	1,874	1,814
Imputed financing	498	20,385	20,883
Other	(574)	-	(574)
Total Financing Sources	1,358	479,572	480,930
Net Cost of Operations	1,478	461,012	462,490
Net Changes	(120)	18,560	18,440
Cumulative Results of Operations	36,841	284,671	321,512
Unexpended Appropriations			
Beginning Balance	-	196,770	196,770
Budgetary Financing Sources			
Appropriations received	-	434,868	434,868
Other adjustments	-	(7,463)	(7,463)
Appropriations used	-	(456,728)	(456,728)
Total Budgetary Financing Sources	-	(29,323)	(29,323)
Total Unexpended Appropriations	-	167,447	167,447
Net Position	\$ 36,841	\$ 452,118	\$ 488,959

The elimination column is omitted as no elimination activity impacts this statement.

The accompanying notes are an integral part of these statements

Combined Statement of Budgetary Resources
For the years ended September 30, 2012 and 2011
(in thousands)

	<u>2012</u>	<u>2011</u>
BUDGETARY RESOURCES:		
Unobligated balance brought forward, October 1	\$ 63,980	\$ 110,211
Adjustment to unobligated balance, brought forward	-	(11,281)
Unobligated balance brought forward, October 1	63,980	98,930
Recoveries of prior year unpaid obligations	33,929	8,275
Other changes in unobligated balance	(4,036)	(3,395)
Unobligated balance from prior year budget authority, net	93,873	103,810
Appropriations (discretionary and mandatory)	398,234	433,402
Spending authority from offsetting collections (discretionary and mandatory)	224,932	195,878
Total budgetary resources	<u>717,039</u>	<u>733,090</u>
STATUS OF BUDGETARY RESOURCES:		
Obligations incurred	628,228	669,110
Unobligated balance, end of year:		
Apportioned	56,812	43,359
Exempt from apportionment	8,544	6,035
Unapportioned	23,455	14,586
Total unobligated balance, end of year	<u>88,811</u>	<u>63,980</u>
Total budgetary resources	<u>717,039</u>	<u>733,090</u>
CHANGE IN OBLIGATED BALANCE:		
Unpaid obligations, brought forward, October 1 (gross)	205,433	219,741
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(19,441)	(35,890)
Obligated balance start of year (net), before adjustments (+ or -)	185,992	183,851
Adjustment to obligated balance, start of year	-	11,281
Obligated balance, start of year (net), as adjusted	185,992	195,132
Obligations incurred	628,228	669,110
Outlays, (gross) (-)	(617,870)	(675,143)
Change in uncollected customer payments from Federal sources (+ or -)	(19,056)	5,168
Recoveries of prior year unpaid obligations (-)	(33,929)	(8,275)
Obligated balance, end of year		
Unpaid Obligations, end of year (gross)	181,861	205,433
Uncollected customer payments from Federal sources, end of year (-)	(38,496)	(19,441)
Obligated balance, end of year (net)	<u>143,365</u>	<u>185,992</u>
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	623,166	629,280
Actual offsetting collections (discretionary and mandatory) (-)	(221,077)	(215,032)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(19,056)	5,168
Budget Authority, net (discretionary and mandatory)	<u>383,033</u>	<u>419,416</u>
Outlays, gross (discretionary and mandatory)	617,870	675,143
Actual offsetting collections (discretionary and mandatory) (-)	(221,077)	(215,032)
Outlays, net (discretionary and mandatory)	396,793	460,111
Distributed offsetting receipts	(6,767)	(2,610)
Agency Outlays, net (discretionary and mandatory)	<u>\$ 390,026</u>	<u>\$ 457,501</u>

The accompanying notes are an integral part of these statements

Notes to Principal Statements

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

National Archives and Records Administration (NARA), is an independent agency administered under the supervision of the Archivist of the United States. It comprises various Operating Administrations, each having its own management and organizational structure, which collectively provide services and access to the essential documentation. NARA's accompanying financial statements include accounts of all funds under NARA's control, listed below and detailed in the Sources of Funds section of Management Discussion and Analysis.

General Funds

- Operating Expenses appropriation - Archives and Records Management Activities
- Electronic Records Archives (ERA) fund was merged with the Operating Expense funds in FY 2012, and is reflected as such on the Statement of Net Costs and the RSI Schedule of Budgetary Resources by Major Budget Accounts
- Repairs and Restoration
- National Historical Publications and Records Commission Grants

Intragovernmental Fund

- Revolving Fund, Records Center and Storage Services

Trust Funds

- National Archives Trust Fund
- National Archives Gift Fund

B. Basis of Accounting and Presentation

These statements have been prepared from the accounting records of NARA in conformity with accounting principles (GAAP) generally accepted in the United States, and the requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These statements are, therefore, different from the financial reports prepared by NARA, also subject to OMB directives, for the purposes of reporting and monitoring NARA's status of budgetary resources.

Transactions are recorded on both an accrual and budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds.

C. Funds with the U.S. Treasury and Cash

Funds with the U.S. Treasury primarily represent appropriated, revolving and trust funds. These funds may be used by NARA to finance expenditures. NARA's cash receipts and disbursements are processed by the U.S. Treasury.

Cash consists of petty cash imprest funds at Presidential Libraries and the National Archives regional and headquarters store locations, used to finance the cashiers' start-up cash.

D. Accounts Receivable

Accounts receivable primarily consists of amounts due from Federal agencies, which are expected to be collected, and therefore are not considered for allowance for uncollectible accounts. For amounts due from the public, NARA directly writes off uncollectible receivables based on an analysis of the outstanding balances.

E. Investments in Securities

Investments in Federal securities are made daily and are reported at cost.

NARA also employs the services of a third party capital management firm to monitor and manage the endowments, received pursuant to Title 44 U.S.C. section 2112, for the George Bush Library and Clinton Library. The purpose of the endowment is to provide income to offset the operations and maintenance costs of the corresponding Presidential library. Each endowment is reflected as a separate investment account in a Collective Fund. NARA also exercises its authority under Title 44 U.S.C. section 2306, to move a portion of federally held investments for the Presidential Libraries to a third party investment firm, The Vanguard Group. All third party investments are recorded at fair value and interest income earned is recognized on a monthly basis.

F. Inventories

The National Archives Trust Fund inventories, which consist of merchandise, held for sale, are stated at the lower of cost or market, with cost determined using the average cost method. An allowance for damaged and obsolete goods is based on historical analysis and an evaluation of inventory turnover from year to year. Expenses are recorded when the inventories are sold.

G. Property, Plant and Equipment

NARA's PP&E falls into two categories: general PP&E (See Note 6) and heritage assets (See Note 7). General PP&E items are used to provide general government goods and services. Heritage assets are defined as possessing significant educational, historic, cultural or natural characteristics, and are not included in the general PP&E

Multi-use heritage assets are heritage assets that are used predominantly for general government operations. The costs of acquisition, significant betterment or reconstruction of multi-use heritage assets are capitalized as general PP&E and depreciated, and are included on the Balance Sheet as general PP&E.

H. Federal Employee Benefits

Employee Health and Life Insurance Benefits

All permanent NARA employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP) and may continue to participate after retirement. Both of these programs require contributions from the employee based on the coverage options selected by the employee. NARA makes contributions for the required employer share through the Office of Personnel Management (OPM) to FEHBP and FEGLIP, which are recognized as operating expenses.

The Office of Personnel Management (OPM) administers and reports the liabilities for the post-retirement portion of these benefits. These costs are financed by OPM and imputed to all Federal agencies, including NARA. Using the cost factors supplied by OPM, NARA recognizes an expense for the future cost of postretirement health benefits and life insurance for its employees as imputed cost on the Statement of Net Costs and imputed financing sources on the Statement of Changes in Net Position.

Employee Retirement Benefits

All permanent NARA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). NARA makes the required employer contributions to CSRS and FERS and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses. The pension expense recognized in the financial statements equals the current service cost for NARA's employees for the accounting period less the amount contributed by the employees. OPM, the administrator of these plans, supplies NARA with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by NARA and its employees represents the amount being financed directly by OPM and is considered imputed financing to NARA; appearing as an imputed cost on the Statement of Net Cost and an imputed financing source on the Statement of Changes in Net Position.

Workers' Compensation Program

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NARA for these paid claims.

Actuarial FECA liability represents the liability for expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. NARA computes its actuarial FECA liability based on the model provided by DOL and presents it as a liability to the public on the Balance Sheet because neither the costs nor reimbursements have been recognized by DOL. See Note 8.

I. Accrued Annual, Sick and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At the end of each fiscal year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. This liability is not covered by budgetary resources, as detailed in Note 8. Funding occurs in the year the leave is taken and payment is made for the appropriated funds. The trust and revolving funds, are fully funding the annual leave earned but not taken, and are including it in the total liabilities covered by budgetary resources.

Sick leave and other types of non-vested leave are expensed as taken. See Notes 8 and 10.

J. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

K. Contingencies and Commitments

NARA generally recognizes an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are deemed "remote" are not recognized or disclosed in the financial statements.

L. Allocation of Program Management Cost

NARA is comprised of various Operating Administrations, each having its own management and organizational structure. NARA allocates its general management and administrative support to its major components, Archives and Records Management activities and Revolving fund. General management costs are not allocated to the Trust and Gift Funds, since they are administered by the National Archives Trust Fund Board, which is an organization independent of, and not funded by, NARA. All other programs appearing on the Statement of Net Cost, such as Archives facilities and presidential libraries repairs and restoration and National Historic Publications and Records Commission Grants are, in essence, a part of the Archives and Records Management Activities, which funds the related administrative costs. These sub-programs are shown separately for the purpose of demonstrating accountability and custodial responsibility for the funds received for these programs.

M. Earmarked Funds

NARA is subject to the Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, which requires separate identification of the earmarked funds on the Balance Sheet, Statement of Changes in Net Position, and further disclosures in a footnote (see Note 13). Earmarked funds are defined when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes; (2) explicit authority for the earmarked fund to retain revenues and other

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financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

N. Subsequent Events

We have evaluated subsequent events and transactions occurring after September 30, 2012 through the date of the auditors' opinion for potential recognition or disclosure in the financial statements. This is also the date that the financial statements were available to be issued.

Note 2 - Fund Balance with Treasury

Fund balances (in thousands)	2012	2011
Appropriated funds	\$ 204,662	\$ 220,324
Revolving fund	12,275	19,741
Trust fund	95	265
Gift fund	101	103
Other funds	467	280
Total	\$ 217,600	\$ 240,713

Status of Fund Balances with Treasury

Unobligated Balance		
Available	50,313	39,855
Unavailable	23,455	14,586
Obligated Balance not yet disbursed	143,365	185,992
Other funds	467	280
Total	\$ 217,600	\$ 240,713

Unavailable unobligated balance includes the following

Allotments - Expired Authority	\$ 17,430	\$ 14,586
Unapportioned Authority	6,025	-
Total	\$ 23,455	\$ 14,586

Conditional donations, included in the available unobligated and obligated balance above, are obligated in accordance with the terms of the donor. All donations to Presidential Libraries and the National Archives with specific requirements are considered conditional, as to purpose. The endowments for the Presidential Libraries are conditional and have been obligated and invested in non-federal investments. The conditional balance as of September 30, 2012 is \$17,303 thousand (of which \$808 thousand is unobligated) and \$14,083 thousand as of September 30, 2011 (of which \$901 thousand is unobligated).

Other Funds represent non-entity FBWT assets consisting of revenue collected and due to the Reagan and Clinton foundations, subject to revenue sharing agreements with the Trust Fund.

The unused fund balance of \$4,036 thousand in canceled FY 2007 appropriation was returned to Treasury at the end of the fiscal year.

Note 3 – Investments

Investments as of September 30, 2012 and 2011 consist of the following
(in thousands)

Amounts for 2012					
	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$ 14,525	-	\$ 14,525	-	\$ 14,525
Total Intragovernmental	14,525	-	14,525	-	14,525
Other securities					
Vanguard Dividend Growth Fund	1,324	28	1,352	318	1,670
Vanguard Small Cap Index Fund	1,615	1	1,616	187	1,803
Vanguard Intermediate Term Investment Grade	12,467	-	12,467	895	13,362
Emerging Markets Stock Index Fund	1,340	21	1,361	(21)	1,340
Vanguard Developed Markets Index Fund	1,510	18	1,528	(210)	1,318
Vanguard Total Bond Market Index Fund	7,594	-	7,594	900	8,494
Vanguard Total Stock Market Index Fund	1,990	4	1,994	288	2,282
Vanguard PRIMECAP Core Fund	1,037	12	1,049	240	1,289
Total Other	28,877	84	28,961	2,597	31,558
Total Investments	\$ 43,402	\$ 84	\$ 43,486	\$ 2,597	\$ 46,083

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Amounts for 2011

	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$ 9,204	-	\$ 9,204	-	\$ 9,204
Total Intragovernmental	\$ 9,204	-	\$ 9,204	-	\$ 9,204
Other securities					
Vanguard Dividend Growth Fund	1,113	10	1,123	57	1,180
Vanguard Small Cap Index Fund	1,171	-	1,171	(147)	1,024
Vanguard Intermediate Term Investment Emerging Markets Stock Index Fund	12,228	-	12,228	380	12,608
Vanguard Developed Markets Index Fund	1,149	19	1,168	(161)	1,007
Vanguard Total Bond Market Index Fund	1,397	30	1,427	(333)	1,094
Vanguard Total Stock Market Index Fund	7,558	-	7,558	809	8,367
Vanguard PRIMECAP Core Fund	1,792	2	1,794	(172)	1,622
	1,023	10	1,033	19	1,052
Total Other	27,431	71	27,502	452	27,954
Total Investments	\$ 36,635	\$ 71	\$ 36,706	\$ 452	\$ 37,158

Other securities represent investments in short-term investment funds and fixed-income securities.

Intra-governmental Investments in Treasury Securities-Investments for Earmarked Funds

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Gift and Trust funds as evidence of its receipts. Treasury securities are an asset to the Gift and Trust funds and a liability to the U.S. Treasury. Since the Gift and Trust funds and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Gift and Trust funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Gift and Trust funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 4 – Accounts Receivable, Net

Accounts receivable consisted of the following:

(in thousands)

	2012		2011	
	Intra- governmental	With the public	Intra- governmental	With the public
Accounts receivable	\$ 15,130	\$ 373	\$ 14,350	\$ 512

Note 5 – Inventory, Net

Inventories consist of merchandise held available for current sale at gift shops in the Presidential Libraries and the National Archives buildings.

(in thousands)

	2012	2011
Inventory held for sale	1,303	1,285
Allowance for damaged and obsolete goods	(248)	(256)
Net realizable value	\$ 1,055	\$ 1,029

Note 6 - General Property, Plant and Equipment, Net

The following components comprise Property, Plant and Equipment as of September 30, 2012 and 2011 (in thousands):

Asset category	Estimated useful life in years	Acquisition cost	Accumulated depreciation/ amortization	2012	2011
				Net book value	Net book value
Land	N/A	6,159	-	6,159	6,159
Buildings and structures	30	396,102	(235,288)	160,814	172,050
Construction and shelving in progress	N/A	7,120	-	7,120	12,150
Equipment & Shelving	3 to 20	138,077	(96,635)	41,442	55,224
Leasehold Improvements	Various	34,329	(10,287)	24,042	19,809
Assets under capital lease	20	5,284	(4,302)	982	1,265
Internal-use software	5	327,366	(206,852)	120,514	131,503
Software development in progress	N/A	16,928	-	16,928	54,620
Total property, plant and equipment		\$ 931,365	\$ (553,364)	\$ 378,001	\$ 452,780

NARA capitalizes property items with a unit cost equal to or exceeding \$50 thousand, and construction and internal-use software development projects with the total development cost of \$250 thousand or greater, and a useful life exceeding two years. Depreciation expense is calculated using the straight-line method over the useful life. Property items not meeting the capitalization criteria are expensed.

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During FY2012, NARA recorded an adjustment to the accumulated depreciation resulting from correction in the depreciation start date for certain construction- in-progress assets. This adjustment to prior year balances appears as a correction of error on the Statement of Changes in Net Position.

Land and Buildings and structures presented on the Balance Sheet are deemed to be multi-use heritage assets. Assets deemed purely heritage assets are not included on the balance sheet. See Note 7 for further detail.

Internal-use software includes commercial off-the-shelf (COIS) software and internally developed or contractor developed software.

Note 7 - Stewardship PP&E

NARA is a custodian to multiple assets classified as heritage, including the National Archives Building in Washington, DC, all Presidential Libraries, as well as traditional and electronic holdings, and a variety of artifacts. These heritage assets are integral to the mission of the National Archives and Records Administration to safeguard, preserve, and ensure continuing access to the records of our Government.

Heritage assets, with the exception of those designated as multi-use, are not included on the Balance Sheet, as no financial value is, nor can be placed on these assets. The costs of repairs and renovations to the heritage asset buildings are presented separately on the Statement of Net Cost as "Heritage asset renovation costs," and detailed in Note 15.

The major categories of heritage assets for NARA are buildings, land, and NARA's archival holdings and artifacts. NARA reports archival holdings by collection (e.g. Presidential, regional) and type of holdings (e.g. traditional, electronic), to more closely align with NARA's processes to maintain and preserve archival holdings.

	Buildings	Multi-Use Land	Traditional Holdings Collections	Electronic Holdings Collections	Artifacts Collections
National Archives Building	1	-	1	1	1
National Archives Building at College Park	1 (multi-use)	-	1	1	1
NARA regional archives	1 (multi-use)	2	13	-	-
Affiliated archives	-	-	7	1	-
Presidential Libraries	12	-	13	4	13
TOTAL	15	2	35	7	15

Buildings

Our most iconic asset, the National Archives Building, permanently displays the Declaration of Independence, the Constitution, and the Bill of Rights, collectively known as the Charters of Freedom. National Archives Building also houses textual and microfilm records relating to genealogy, American Indians, pre-World War II military and naval-maritime matters, the New Deal, the District of Columbia, the Federal courts, Congress, and the Vice Presidents Gore and Cheney.

To provide appropriate storage and preservation needs for the growing number of records, NARA was authorized to construct the National Archives in College Park, Maryland. National Archives at College Park collections include electronic records, cartographic and architectural holdings, special media (motion pictures, audio recordings, and videotapes), artifacts, the John F. Kennedy Assassination Records Collection, still pictures, and textual records from most civilian agencies and military records dating from World War II. Because the building also serves as the NARA administrative headquarters,

the facility was deemed to be a multi-use heritage asset, and is included in general PP&E on the Balance Sheet (Note 6).

The NARA's regional archives facilities are leased, with the exception of Southeast Regional Facility (SER) in Atlanta, GA, which was constructed on land purchased by NARA. Along with National Archives at College Park, the building and the land are designated as multi-use heritage assets and are included in general PP&E on the Balance Sheet (Note 6).

Our regional archives contain collections of archival holdings of value for genealogical and historical research, such as Federal census information, naturalization records and passenger lists, as well as closed business and personal bankruptcy case files, civil and criminal case files from Federal courts. The traditional military service records for the 20th century and personnel records of former federal civilian employees from mid-1800s through 1951 are managed at the National Personnel Records Center in St. Louis, Missouri.

The affiliated archives store the holdings of the National Archives. While we have agreements with 10 institutions, currently only 8 institutions store NARA's accessioned holdings.

The twelve Presidential Libraries are designated as heritage assets. Each consists of buildings, structures, and land under NARA's management used to store, preserve, and display the collections of traditional archival holdings and artifacts from the respective Presidential administration. Until the construction of the George W. Bush Library is completed at the Southern Methodist University, the collections of records and artifacts documenting the Presidency of George W. Bush are housed at a temporary leased facility in Lewisville, Texas.

Multi-Use Land

NARA owns two parcels of land, designated as multi-use, each serving as a site for current (SER in Atlanta, GA) and future (Alaska) multi-use regional archival facilities.

Traditional Archival holdings consist of the following record types:

- Traditional Textual (paper) are records on paper whose intellectual content is primarily textual.
- Traditional Non-textual (all media) category includes all records not classified as textual (paper), artifacts, or electronic records. It includes still pictures on paper and film; posters; architectural drawings, charts, maps and other cartographic records on paper; textual records on microfilm; as well as motion pictures, video, sound recordings, and other clearly non-textual records.

Electronic Archival records are records on electronic storage media, such as word processing documents, spreadsheets, emails (with attachments), databases, satellite imagery, and digital photographs, etc from agencies in the executive, legislative and judicial branches. The three Presidential electronic holding collections, from the Ronald Reagan, George Bush and William J. Clinton libraries, are maintained in College Park, Maryland. The Presidential unclassified electronic materials from the George W. Bush administration have been ingested to our Executive Office of the President (EOP) instance of the Electronic Records Archives system. Also ingested were the electronic records of Vice Presidents Gore and Cheney, which are under the direction of the Presidential Materials Staff at the National Archives building.

Artifacts

In addition to already discussed artifacts at the National Archives and National Archives at College Park, each of the Presidential library's museums is a repository to a collection of artifacts, preserved and exhibited to promote public understanding of the history of the period, the respective Presidential administration, and the career of the President. The artifact collections include gifts from foreign heads of state, luminaries and common citizens with artifacts ranging from high value items, including firearms, jewelry, and works of art, coins and currency to tee shirts, trinkets and curiosities.

There were no additions to any heritage asset collection, building or land during FY 2012, and no collection is ever retired or disposed. NARA's collections only grow with the accessioning of new records or transfer of Presidential materials. For the accession to take place, the Archivist determines, through the formal scheduling and appraisal process, whether records have sufficient administrative, legal, research or other value to warrant their continued preservation by the Government and for how long (44 USC 3303a). When in the public interest, the Archivist may accept Government records for historical preservation (44 USC 2107) and accept non-Government papers and other historical materials for deposit (44 USC 2111). The archivist also administers Presidential and Vice Presidential records in accordance with 44 U.S.C. Chapter 22. Methods of acquisition and disposal are according to the guidelines established through the legal authority granted to NARA. See the Performance Section 2.2 for more details on NARA's performance data on processing records and Section 2.7 for details on NARA's preservation performance.

Providing physically and environmentally appropriate storage conditions at NARA's facilities is the most essential and cost-effective way to preserve records. Information about the condition and deferred maintenance on NARA owned buildings and holdings is contained in the Deferred Maintenance section of the Required Supplementary Information.

Note 8 – Liabilities not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities that are not funded by direct budgetary authority in the current fiscal year and result from the receipt of goods and services, or the occurrence of eligible events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation. Liabilities not covered by budgetary resources as of September 30, 2012 and 2011, consist of the following:

(in thousands)

	2012	2011
Intragovernmental		
Other - Workers' compensation	\$ 756	\$ 713
Total Intragovernmental	\$ 756	\$ 713
Debt held by the public	151,585	166,895
Other - Accrued unfunded leave	10,793	11,244
Federal employee benefits-actuarial FECA	10,798	10,865
Total liabilities not covered by budgetary resources	173,932	189,717
Total liabilities covered by budgetary resources	60,918	68,630
Total liabilities	\$ 234,850	\$ 258,347

Note 9 - Debt Held by the Public

Public Law 100-440 authorized NARA to “enter into a contract for construction and related services for a new National Archives facility. . . . The contract shall provide, by lease or installment payments payable out of annual appropriations over a period not to exceed thirty years.”

In 1989, NARA entered into an installment sale and trust agreement with the trustee, United States Trust Company of New York. Under terms of this agreement, the trustee obtained financing for the construction of the National Archives at College Park through the sale of certificates representing proportionate shares of ownership. NARA is paying off the debt in semiannual installments.

Although the full amount financed of \$301,702 thousand was included (scored) for U.S. budget estimation purposes in fiscal year 1989, NARA requires a congressional appropriation to pay the redemption of debt (principal) and interest costs of \$28,971 thousand, annually. The 25-year semiannual payments of \$14,486 thousand began in 1994 and will be completed in 2019.

<i>(in thousands)</i>	2012	2011
Beginning balance - Principal	\$ 165,721	\$ 179,708
Less : Debt repayment	15,202	13,987
Ending balance - Principal	150,519	165,721
Accrued interest payable	1,066	1,174
Total Debt at September 30	\$ 151,585	\$ 166,895

Note 10 – Other Liabilities

Other Liabilities as of September 30, 2012 and 2011 consist of the following:

<i>(in thousands)</i>	2012		
	Non-Current	Current	Total
Intragovernmental			
Workers' and unemployment compensation	\$ 1,253	\$ 1,046	\$ 2,299
Capital lease liability	151	129	280
Accrued payroll	-	1,097	1,097
Advances from others	-	1,777	1,777
Total Intragovernmental	1,404	4,049	5,453
Accrued funded payroll and leave	-	8,317	8,317
Unfunded leave	10,793	-	10,793
Miscellaneous liabilities	-	13	13
Advances from others	-	513	513
Total other liabilities	\$ 12,197	\$ 12,892	\$ 25,089

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	2011		
	Non-Current	Current	Total
Intragovernmental			
Workers' and unemployment compensation	\$ 1,303	\$ 926	\$ 2,229
Capital lease liability	280	119	399
Accrued payroll	-	1,211	1,211
Advances from others	-	548	548
Total Intragovernmental	1,583	2,804	4,387
Accrued funded payroll and leave	-	9,920	9,920
Unfunded leave	11,244	-	11,244
Miscellaneous liabilities	-	7	7
Advances from others	-	114	114
Total other liabilities	\$ 12,827	\$ 12,845	\$ 25,672

Note 11 – Leases

NARA leases office space, vehicles, copiers, and equipment under annual operating leases. These leases are cancelable or renewable on an annual basis at the option of NARA.

The NARA Revolving Fund conducts the major part of its operation from leased facilities, where most agreements are cancelable operating leases. These leases may be cancelled with four months notice, or, in the case of the Atlanta lease, may be terminated for convenience by NARA, under the provisions of the Federal Acquisitions Regulations.

Only one lease is classified as a capital lease, representing liability for shelving leased through GSA at the Philadelphia records facility. It expires in December 2014. The net capital lease liability is covered by budgetary resources, and shown in Intragovernmental Liabilities, Other (See Note 10).

The schedule below shows the future minimum payments under the capital lease with the present value of the future minimum lease payments (in thousands):

Capital Leases - NARA as lessee	2012	2011
Summary of assets under capital lease:		
Shelving	\$ 5,284	\$ 5,284
Accumulated amortization	(4,302)	(4,019)
Description of Lease Arrangements		
Future payments due		
<u>Fiscal year</u>		
2013	\$ 146	
2014	146	
2015	12	
2016	-	
After 2017	-	
Total future lease payments	304	
Less: imputed interest	24	
Net capital lease liability	\$ 280	

NARA also has the following non-cancelable operating leases with GSA, which include no renewal options:

Records facility	Lease Period
Pittsfield, Massachusetts	January 5, 1994 through January 31, 2020
Dayton (Kingsridge), Ohio	September 1, 2004 through December 31, 2022
Lenexa, Kansas	February 1, 2003 through February 14, 2023
Pershing Rd, Kansas City, MO	January 1, 2009 through December 31, 2028
Ft. Worth-Montgomery, Texas	February 12, 2011 through February 10, 2016
Archives Dr./Dunns Rd. St. Louis, Missouri	April 30, 2011 through April 29, 2031
Denver (Broomfield), Colorado	August 1, 2011 through May, 30, 2032
Underground Dr, Kansas City	September 19, 2012 through September 18, 2032

Other non-cancelable operating leases with public corporations are detailed below. The Perris, CA and Atlanta, GA records facilities' leases have three ten year renewal options after the initial period.

Records facility	Lease Period
Perris, CA	December 1, 2004 through November 30, 2024
Atlanta, GA	October 1, 2004 through June 30, 2024
Ft. Worth, Texas	October 1, 2006 through October 31, 2026
The Annex I and II in Valmeyer, Illinois	October 1, 2008 through September 30, 2028

All GSA and public corporation leases include escalation clauses for operating costs tied to inflationary increases and for real estate taxes tied to tax increases. The minimum future lease payments detailed below reflect estimated escalations for such increases. These amounts will be adjusted to the actual costs incurred by the lessor.

In addition, NARA has a non-cancelable operating lease with Potomac Electric Power Company for a parcel of land used for a parking lot at our building in College Park. The lease is for 20 years, from May 2003 through April 2023, and contains a set schedule of payments due.

The schedule below shows the total future non-cancelable lease payments by asset class

(in thousands):

Operating Leases - NARA as lessee		
Future payments due:	Asset Category	
<u>Fiscal year</u>	Land	Buildings
2013	\$ 139	\$ 31,136
2014	142	31,478
2015	146	31,510
2016	149	31,446
2017	153	31,593
After 2017	928	345,711
Total future lease payments	\$ 1,657	\$ 502,874

Note 12 – Commitments and Contingencies

NARA has incurred various claims in the normal course of business. As of September 30, 2012, however, in the opinion of General Counsel NARA has no outstanding claims that have a reasonable possibility of an unfavorable outcome.

Note 13 - Earmarked Funds

Earmarked funds are financed by specifically identified revenues, which remain available over time. These specifically identified revenues are required by statute to be used for designated activities, or purposes, and must be accounted for separately from the Government's general revenues. NARA has two funds that are considered earmarked funds; National Archives Trust Fund (NATF) and National Archives Gift Fund (NAGF), which are administered by the National Archives Trust Fund Board.

Congress established the National Archives Trust Fund Board to receive and administer gifts and bequests and to receive monies from the sale of reproductions of historical documents and publications for activities approved by the Board and in the interest of NARA and the Presidential Libraries.

The members of the Board are the Archivist of the United States, who serves as chairman; the Secretary of the Treasury; and the chairman of the National Endowment for the Humanities. Membership on the board is not an office within the meaning of the statutes of the United States. The membership, functions, powers and duties of the National Archives Trust Fund Board shall be as prescribed in the National Archives Trust Fund Board Act of July 9, 1941, as amended (44 U.S. C. 2301-2308). These bylaws are adopted pursuant to the authority vested in the Board by 44 U.S. C. 2303 (3) to adopt bylaws, rules and regulations necessary for the administration of its function under this chapter.

NATF finances and administers the reproduction or publication of records and other historical materials. NAGF accepts, receives, holds and administers, in accordance with the terms of the donor, gifts, or bequests of money, securities, or other personal property for the benefit of NARA activities. The major areas of activity for these funds are Presidential Libraries, the Office of Regional Records Services, and the National Historical Publications and Records Commission.

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Financial Information for NATF and NAGF as of September 30, 2012 and 2011 consists of the following:

<i>(in thousands)</i>	2012		
	NATF	NAGF	Total Earmarked Funds
Balance Sheet as of September 30, 2012			
Assets			
Fund balance with Treasury	\$ 562	\$ 101	\$ 663
Cash	52	-	52
Investments, net	24,966	21,117	46,083
Accounts receivable	446	-	446
Inventory	1,056	-	1,056
Property, plant & equipment	147	-	147
Total assets	27,229	21,218	48,447
Liabilities			
Accounts payable	781	457	1,238
Federal employee and veteran benefits	376	-	376
Other liabilities	3,147	-	3,147
Total liabilities	4,304	457	4,761
Net position			
Cumulative results of operations			
Conditional	-	17,303	17,303
Unconditional	22,925	3,458	26,383
Total net position	22,925	20,761	43,686
Total liabilities and net position	\$ 27,229	\$ 21,218	\$ 48,447
Statement of Net Cost for the Period Ended September 30, 2012			
Gross Program Costs	15,535	3,323	18,858
Less Earned Revenues	18,814	-	18,814
Net Costs of Operations	\$ (3,279)	\$ 3,323	\$ 44
Statement of Changes in Net Position For the Period Ended September 30, 2012			
Net position, Beginning of fiscal year	19,094	17,747	36,841
Non-exchange revenue	3	573	576
Donations	-	5,363	5,363
Transfers-in/out without reimbursements	80	(612)	(532)
Other Budgetary Financing Sources	-	265	265
Donations and forfeitures of property	-	-	-
Imputed financing from costs absorbed by others	469	-	469
Other Financing Sources	-	748	748
Total financing sources	552	6,337	6,889
Net cost of operations	(3,279)	3,323	44
Change in Net Position	3,831	3,014	6,845
Net Position, End of fiscal year	\$ 22,925	\$ 20,761	\$ 43,686

The elimination column was omitted because there was no elimination activity.

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(in thousands)

	2011		
	NATF	NAGF	Total Earmarked Funds
Balance Sheet as of September 30, 2011			
Assets			
Fund balance with Treasury	\$ 544	\$ 103	\$ 647
Cash	55	-	55
Investments, net	19,488	17,669	37,157
Accounts receivable	321	-	321
Inventory	1,029	-	1,029
Total assets	21,437	17,772	39,209
Liabilities			
Accounts payable	772	25	797
Federal employee and veteran benefits	372	-	372
Other liabilities	1,199	-	1,199
Total liabilities	2,343	25	2,368
Net position			
Cumulative results of operations			
Restricted	-	14,083	14,083
Unrestricted	19,094	3,664	22,758
Total net position	19,094	17,747	36,841
Total liabilities and net position	21,437	17,772	39,209
Statement of Net Cost for the Period Ended September 30, 2011			
Gross Program Costs	17,366	593	17,959
Less Earned Revenues	16,481	-	16,481
Net Costs of Operations	\$ 885	\$ 593	\$ 1,478
Statement of Changes in Net Position For the Period Ended September 30, 2011			
Net position, Beginning of fiscal year	19,388	17,573	36,961
Non-exchange revenue	-	636	636
Donations	-	989	989
Transfers-in/out without reimbursements	93	(738)	(645)
Other Budgetary Financing Sources	-	394	394
Donations and forfeitures of property	-	60	60
Imputed financing from costs absorbed by others	498	-	498
Other Financing Sources	-	(574)	(574)
Total financing sources	591	767	1,358
Net cost of operations	885	593	1,478
Change in Net Position	(294)	174	(120)
Net Position, End of fiscal year	\$ 19,094	\$ 17,747	\$ 36,841

The elimination column was omitted because there was no elimination activity.

Note 14 – Intragovernmental Costs and Exchange Revenues by Program
(in thousands)

	<u>2012</u>	<u>2011</u>
Archives and Records Management Activities		
Intragovernmental gross costs	\$ 68,207	\$ 70,075
Public costs	369,505	348,780
Total Records and Archives-Related Services Costs	437,712	418,855
Intragovernmental earned revenue	114	421
Public earned revenue	498	(141)
Total Records and Archives-Related Services Earned Revenue	\$ 612	\$ 280
Trust and Gift Funds		
Intragovernmental gross costs	\$ 2,410	\$ 2,384
Public costs	11,441	12,517
Heritage asset renovation costs (Note 15)	2,757	-
Total Trust and Gift Funds Costs	16,608	14,901
Intragovernmental earned revenue	1,222	467
Public earned revenue	17,586	16,014
Total Trust and Gift Funds Earned Revenue	\$ 18,808	\$ 16,481
National Historical Publications and Records Commission Grants		
Intragovernmental gross costs	-	-
Public costs	9,686	8,408
Total National Historical Publications and Records Commission Grants Costs	\$ 9,686	\$ 8,408
Archives Facilities and Presidential Libraries Repairs and Restoration		
Intragovernmental gross costs	-	-
Public costs	\$ 567	\$ 1,468
Heritage asset renovation costs (Note 15)	19,125	23,518
Total Archives Facilities and Presidential Libraries Repairs and Restoration Costs	\$ 19,692	\$ 24,986
Revolving Fund Records Center Storage and Services		
Intragovernmental gross costs	\$ 83,587	\$ 79,144
Public costs	105,693	105,750
Total Revolving Fund Records Center Storage and Service Costs	189,280	184,894
Intragovernmental earned revenue	174,820	171,372
Public earned revenue	1,531	1,421
Total Revolving Fund Records Center Storage and Services Earned Revenue	\$ 176,351	\$ 172,793

Gross costs are classified on the basis of the sources of goods and services. Intragovernmental gross costs are expenses related to purchases from a Federal entity. Intragovernmental earned revenue represents exchange transactions between NARA and other Federal entities. In FY 2012, the Electronic Records Archives program was combined with the Archives and Records Management Activities program (formerly known as Records and Archives Related Services).

Public costs are expenses related to purchases from a non-Federal entity, and the exchange revenue is classified as “public earned revenue” where the buyer of the goods or services is a non-Federal entity.

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Note 15 – Cost of Stewardship PP&E

Stewardship assets consist of heritage assets as defined in Note 7. The Consolidated Statement of Net Cost includes the following costs to renovate heritage assets buildings and structures, as of September 30, 2012 and 2011 (in thousands):

<i>Asset</i>	2012		2011	
	<u>Appropriation</u>	<u>Gift</u>	<u>Appropriation</u>	<u>Gift</u>
National Archives Building	\$ 4,854	\$2,593	\$ 3,237	-
<u>Libraries:</u>				
Roosevelt	7,817	-	7,156	-
Hoover	78	-	22	-
Truman	297	-	373	-
Eisenhower	803	-	617	-
Kennedy	2,704	164	9,142	-
Johnson	3	-	17	-
Nixon	240	-	606	-
Ford	1,270	-	1,136	-
Carter	406	-	29	-
Reagan	353	-	953	-
Bush	42	-	180	-
Clinton	258	-	50	-
Total	\$ 19,125	\$ 2,757	\$ 23,518	-

For additional information about NARA’s Stewardship Assets see Note 7 and Required Supplementary Information.

Note 16 – Stewardship PP&E Acquired Through Transfer, Donation or Devise

Other than permanent records accessioned from other Federal Agencies, NARA may gain ownership of heritage assets received through gifts of money, security or other property. The National Archives Gift fund receives and accepts, holds and administers in accordance with the terms of the donor, gifts or bequests for the benefit of the National Archives Gift Fund activities or Presidential Libraries. Additional information about heritage assets is presented in Note 7, and detailed by the type and quantity of heritage assets collections.

Note 17 - Apportionment Categories of Obligations Incurred

OMB typically uses one of two categories to distribute budgetary resources subject to apportionment in a fund. Apportionments that are distributed by fiscal quarters are classified as category A. Category B apportionments usually distribute budgetary resources by activities, project, objects or a combination of these categories. NARA’s Trust fund remains exempt from apportionment.

The amounts of direct and reimbursable obligations incurred (in thousands).

	<u>Category A</u>		<u>Category B</u>		<u>Exempt</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Direct	\$394,619	\$375,655	\$ 27,568	\$ 87,682	\$ -	\$ -	\$422,187	\$463,337
Reimbursable	1,703	2,309	188,691	185,142	15,647	18,322	206,041	205,773
Total	\$396,322	\$377,964	\$216,259	\$272,824	\$15,647	\$ 18,322	\$628,228	\$669,110

Note 18 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* calls for explanations of material differences between budgetary resources available, status of those resources and outlays as presented in the Statement of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government* (President’s Budget). However, the President’s Budget that will include FY 2012 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2013. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, NARA prior year actual SBR balances and the related President’s Budget are shown in a table below for each major budget account in which a difference exists. The remaining differences are primarily due to reporting requirement differences for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President’s Budget. The SBR includes both unexpired and expired appropriations, while the President’s Budget discloses only unexpired budgetary resources that are available for new obligations.

(in millions)	2011			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 733	\$ 669	\$ 3	\$ 457
Difference-Expired appropriations	15	1	-	-
Difference-Rounding	-	1	-	-
Budget of the U.S. Government	\$ 718	\$ 667	\$ 3	\$ 457

Note 19 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2012 and 2011 is \$122,647 thousand and \$136,751 thousand, respectively.

Note 20 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Reconciling budgetary resources obligated during the period to the Net Cost of Operations explains the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (proprietary) accounting.

The reconciliation starts with the net obligations incurred during the period. Net obligations incurred are amounts of new orders placed, contracts awarded, services received and other similar transactions that will require payments during the same or a future period. To arrive at the total resources used to finance operations, non-budgetary resources must be added to net obligations incurred.

Non-budgetary resources include financing imputed for cost subsidies and unrealized gains and losses from non-federal securities being held by the Gift fund.

Resources that do not fund net costs of operations are primarily the change in amount of goods, services and benefits ordered but not yet received, amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet. These are deducted from the total resources.

Costs that do not require resources in the current period consist of depreciation and asset revaluations. Financing sources yet to be provided are the financing amounts needed in a future period to cover costs incurred in the current period, such as unfunded annual leave and unfunded workers compensation. The

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costs that do not require resources in the current period and the financing sources yet to be provided are added to the total resources used to finance operations, to arrive at the net cost of operations for the current period.

<i>(in thousands)</i>	2012	2011
Net obligations incurred	\$ 347,398	\$ 448,360
Nonbudgetary Resources	18,492	19,583
Total resources used to finance activities	365,890	467,943
Resources that do not fund net cost of operations	22,097	(73,689)
Cost that do not require resources in the current period	89,070	67,756
Financing sources yet to be provided	150	480
Net cost of operations	<u>\$ 477,207</u>	<u>\$ 462,490</u>

Required Supplementary Information

Deferred Maintenance

The National Archives owns and manages assets including the National Archives Building, the National Archives at College Park, MD, the Southeast Regional Archives building in Atlanta, GA, and the Presidential Libraries. The rest of NARA facilities are leased from GSA or the public. All of these support NARA's mission to safeguard and preserve our most significant heritage assets, the national record holdings in our custody.

To ensure the preservation of the archival holdings NARA applies a multi-faceted strategy, which includes storage in appropriate environment, and various preservation actions, such as holdings maintenance, custom housing, reformatting and conservation treatment. Through NARA-wide risk and condition assessment processes, which are a function of the day to day operations, such as accessioning of records into the NARA's possession, NARA obtains condition information for its collection type heritage assets.

Extensive preservation actions are required on records identified as "at-risk" to minimize further deterioration and to remediate damage that has occurred due to age or improper handling prior to arrival at NARA. The progress on the ongoing challenge of the backlog of records requiring preservation is tracked and reported as one of our critical performance measures (section 2.7 in the Performance section of this PAR.)

Because the space where the records are preserved is a critical to preventing deterioration of the records, NARA has implemented federal records and archival storage standards to reduce damage to holdings prior to their accession by NARA, as well as when in the NARA's possession. The costs to address deficiencies related to compliance of NARA owned facilities with these storage standards are reflected in the estimate, below.

NARA uses the condition assessment method to determine the condition of its fixed assets, including stewardship PP&E facilities. The condition assessment surveys (CAS) at NARA are conducted by a professional architectural firm, which prepares Building Condition Reports (BCR), for all NARA owned facilities. BCRs are scheduled approximately every five years from the last BCR or major renovation at each facility. Facility managers continue to assess critical needs between BCRs. Maintenance required to bring fixed assets to acceptable condition, which is not scheduled or performed when needed, is included in the deferred maintenance estimate below.

At the end of Fiscal Year 2012, needed maintenance projects for fifteen locations, including twelve Presidential Libraries, have been identified from current BCR reports, and are included in the deferred maintenance estimate.

<u>Category</u>	<u>Method</u>	<u>Acceptable Asset Condition</u>	<u>Estimated Deferred Maintenance</u>
Heritage assets - Buildings	CAS	Good	\$34 to 35 million
Multi-use assets - Buildings	CAS	Good	\$8 to 9 million

NARA categorizes facilities and equipment according to condition using terms such as those shown below:

- o *Good.* Facilities/equipment condition meets established maintenance standards, operating efficiently and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no critical deferred maintenance on building and equipment in good condition.
- o *Fair.* Facilities/equipment condition meets minimum standards, but requires additional maintenance or repairs to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy.

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- *Poor/Unsatisfactory.* Facilities/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function.

Due to the scope, nature and variety of the assets and the nature of the deferred maintenance, exact estimates are very difficult to determine. Current estimates include correcting deficiencies that relate to the safety or the protection of valuable materials, modifications to provide safety and public accessibility to the facility, and electrical upgrades to prevent loss of critical data. The estimates generally exclude vehicles and other categories of operating equipment.

Required Supplementary Information

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2012	Archives and Records Management Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
<u>Budgetary Resources</u>							
Unobligated Balance brought forward, October 1:	\$17,210	\$ 2,518	\$ 6,035	\$ 735	\$33,653	\$ 3,829	\$63,980
Recoveries of prior year unpaid obligations	30,466	28	524	413	165	2,334	33,929
Other changes in unobligated balance	(4,036)	-	-	-	-	-	(4,036)
Unobligated balance from prior year budget authority, net	43,640	2,546	6,559	1,148	33,818	6,162	93,873
Appropriations (discretionary and mandatory)	377,400	6,734	-	5,000	9,100	-	398,234
Spending authority from offsetting collections	2,758	-	17,632	-	-	204,542	224,932
Total Budgetary Resources	\$423,798	\$ 9,281	\$ 24,191	\$ 6,148	\$ 42,918	\$ 210,704	\$ 717,039
<u>Status of Budgetary Resources</u>							
Obligations Incurred	\$ 385,199	\$ 7,059	\$ 15,647	\$ 5,429	\$ 26,203	\$ 188,691	\$ 628,228
Unobligated balance, end of year:							
Apportioned	21,149	2,168	-	719	16,715	16,061	56,812
Exempt from apportionment	-	-	8,544	-	-	-	8,544
Unapportioned	17,451	53	-	-	-	5,951	23,455
Total unobligated balance, end of year	38,599	2,221	8,544	719	16,715	22,013	88,811
Total Budgetary Resources	\$ 423,798	\$ 9,281	\$ 24,191	\$ 6,148	\$ 42,918	\$ 210,704	\$ 717,039
<u>Change in Obligated Balance</u>							
Obligated balance, start of year (net)	\$ 133,759	\$ 537	\$ 816	\$ 17,411	\$ 17,557	\$ 15,913	\$ 185,992
Obligations incurred	385,199	7,059	15,647	5,429	26,203	188,691	628,228
Less: Gross outlays	(375,050)	(4,339)	(15,819)	(9,761)	(21,062)	(191,840)	(617,870)
Less: Recoveries of prior year unpaid obligations, actual	(30,466)	(28)	(524)	(413)	(165)	(2,334)	(33,929)
Change in uncollected customer payments from Federal sources	(13)	-	1,125	-	-	(20,167)	(19,056)
Obligated balance, net, end of period	\$ 113,429	\$ 3,229	\$ 1,245	\$ 12,666	\$ 22,533	\$ (9,738)	\$ 143,365
<u>Budget Authority and Outlays, Net:</u>							
Budget authority, gross (discretionary and mandatory)	\$ 380,158	\$ 6,734	\$ 17,632	\$ 5,000	\$ 9,100	\$ 204,542	\$ 623,166
Actual offsetting collections (discretionary and mandatory) (-)	(17,946)	-	(18,757)	-	-	(184,374)	(221,077)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(13)	-	1,125	-	-	(20,167)	(19,056)
Budget Authority, net (discretionary and mandatory)	\$ 362,199	\$ 6,734	\$ -	\$ 5,000	\$ 9,100	\$ -	\$ 383,033
Outlays, gross (discretionary and mandatory)	\$ 375,050	\$ 4,339	\$ 15,819	\$ 9,761	\$ 21,062	\$ 191,840	\$ 617,870
Less: Actual offsetting collections (discretionary and mandatory) (-)	(17,946)	-	(18,757)	-	-	(184,374)	(221,077)
Less: Distributed Offsetting receipts	(36)	(6,731)	-	-	-	-	(6,767)
Agency Outlays, net (discretionary and mandatory)	\$ 357,067	\$(2,392)	\$(2,938)	\$ 9,761	\$ 21,062	\$ 7,466	\$ 390,026

Please note in FY 2012, the Electronic Records Archives program was combined with the Archives and Records Management Activities program (formerly known as Records and Archives Related Services).

Required Supplementary Information

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2011	Archives and Records Management Activities	Gift Fund	Trust Fund	Electronic Records Archives	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
Budgetary Resources								
Unobligated Balance brought forward, October 1:	\$ 13,179	\$ 2,610	\$ 5,129	\$21,904	\$ 5,348	\$ 37,729	\$ 24,312	\$ 110,211
Adjustments to unobligated balance, brought forward	-	-	-	-	-	-	(11,281)	(11,281)
Unobligated balance brought forward, October 1, as adjusted	13,179	2,610	5,129	21,904	5,348	37,729	13,031	98,930
Recoveries of prior year unpaid obligations	4,180	3	671	398	709	798	1,516	8,275
Other changes in unobligated balance	(2,958)	-	-	(437)	-	-	-	(3,395)
Unobligated balance from prior year budget authority, net	14,401	2,612	5,800	21,866	6,057	38,527	14,547	103,810
Appropriations (discretionary and mandatory)	343,332	2,602	-	71,856	6,986	8,626	-	433,402
Spending authority from offsetting collections	2,896	-	18,557	-	-	-	174,424	195,878
Total Budgetary Resources	\$360,630	\$ 5,215	\$24,357	\$93,721	\$ 13,043	\$ 47,153	\$ 188,971	\$ 733,090
Status of Budgetary Resources								
Obligations Incurred	\$346,828	\$ 2,697	\$18,322	\$90,313	\$ 12,308	\$ 13,500	\$ 185,142	\$ 669,110
Unobligated balance, end of year:								
Apportioned	927	2,518	-	1,697	735	33,653	3,829	43,359
Exempt from apportionment	-	-	6,035	-	-	-	-	6,035
Unapportioned	12,875	-	-	1,711	-	-	-	14,586
Total unobligated balance, end of year	13,802	2,518	6,035	3,408	735	33,653	3,829	63,980
Total Budgetary Resources	\$360,630	\$ 5,215	\$24,357	\$93,721	\$ 13,043	\$ 47,153	\$ 188,971	\$ 733,090
Change in Obligated Balance								
Obligated balance, start of year (net), as adjusted	\$ 91,868	\$ 625	\$ 2,355	\$39,932	\$ 14,057	\$ 34,222	\$ 792	\$ 183,851
Adjustments to obligated balance, start of year							11,281	11,281
Obligated balance, start of year (net), as adjusted	\$ 91,868	\$ 625	\$ 2,355	\$39,932	\$ 14,057	\$ 34,222	\$ 12,073	\$ 195,132
Obligations incurred	346,828	2,697	18,322	90,313	12,308	13,500	185,142	669,110
Less: Gross outlays	(353,268)	(2,783)	(16,909)	(77,330)	(8,245)	(29,367)	(187,241)	(675,143)
Less: Recoveries of prior year unpaid obligations, actual	(4,180)	(2)	(671)	(398)	(709)	(798)	(1,516)	(8,275)
Change in uncollected customer payments from Federal sources	(6)	-	(2,281)	-	-	-	7,455	5,168
Obligated balance, net, end of period	\$ 81,242	\$ 537	\$ 816	\$52,517	\$ 17,411	\$ 17,557	\$ 15,913	\$ 185,992
Budget Authority and Outlays, Net:								
Budget authority, gross (discretionary and mandatory)	\$346,228	\$ 2,602	\$18,557	\$71,856	\$ 6,986	\$ 8,626	\$ 174,424	\$ 629,280
Actual offsetting collections (discretionary and mandatory) (-)	(16,877)	-	(16,276)	-	-	-	(181,879)	(215,032)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(6)	-	(2,281)	-	-	-	7,455	5,168
Budget Authority, net (discretionary and mandatory)	\$329,345	\$ 2,602	\$ 0	\$71,856	\$ 6,986	\$ 8,626	\$ 0	\$ 419,416
Outlays, gross (discretionary and mandatory)	\$353,268	\$ 2,783	\$16,909	\$77,330	\$ 8,245	\$ 29,367	\$ 187,241	\$ 675,143
Less: Actual offsetting collections (discretionary and mandatory) (-)	(16,877)	-	(16,276)	-	-	-	(181,879)	(215,032)
Less: Distributed Offsetting receipts	(10)	(2,600)	-	-	-	-	-	(2,610)
Agency Outlays, net (discretionary and mandatory)	\$336,381	\$ 183	\$ 633	\$ 77,330	\$ 8,245	\$ 29,367	\$ 5,362	\$ 457,501

Auditor's Reports (FY 2012)

Inspector General's Summary

**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2012**

**OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY**

This audit report contains the Annual Financial Statements of the National Archives and Records Administration (NARA) for the fiscal years ended September 30, 2012 and 2011. We contracted with the independent certified public accounting firm of Cotton & Company, LLP (C&C) to perform the fiscal years 2012 and 2011 audits. The audit was done in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable provisions of the OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements*, as amended, and the GAO/PCIE *Financial Audit Manual*.

In its audit of NARA's financial statements, C&C's opinion states that the financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2012 and 2011, and its net cost, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

C&C reported no material weaknesses or significant deficiencies¹ in internal control over financial reporting. C&C disclosed no instances of noncompliance with certain provisions of laws and regulations.

In connection with the contract, we reviewed C&C's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, as we do not express, an opinion on NARA's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. C&C is responsible for the attached auditor's report dated November 14, 2012, and the conclusions expressed in the accompanying reports. However, our review disclosed no instances where C&C did not comply, in all material respects, with generally accepted government auditing standards.

¹ 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 an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

² 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.

Independent Auditor's Report (FY 2012)



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The Inspector General
National Archives and Records Administration

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated Balance Sheets of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of NARA management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance. 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, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We did not audit this information and, accordingly, we express no opinion on it. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with NARA officials. On the basis of this limited work, we found no material inconsistencies between the financial statements and U.S. generally accepted accounting principles or OMB financial reporting requirements.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from the Chief Financial Officer, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our consideration of NARA's internal control over financial reporting and over compliance with laws and regulations. The second report is on our tests of NARA's compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

COTTON & COMPANY LLP



Colette Y. Wilson
Partner

Alexandria, Virginia
November 14, 2012



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The Inspector General
National Archives and Records Administration

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the consolidated financial statements of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and have issued our report thereon dated November 14, 2012. That report contained our unqualified opinion on the financial statements for fiscal year (FY) 2012 and FY 2011. 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) audit guidance.

NARA management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met. The objectives of internal control are as follows:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations:** Transactions are executed in accordance with (1) laws governing the use of budget authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, and government-wide policies identified by OMB audit guidance.

In planning and performing our audits, we considered NARA's internal control over financial reporting and over compliance with laws and regulations. We did this as a basis for designing our procedures for auditing the financial statements and not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and over compliance with laws and regulations.

Our consideration of internal control was for the limited purpose described in the previous paragraph. Thus, it 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.

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 an entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain deficiencies in internal control that will be reported to NARA management in a separate letter.

In commenting on a draft of this report (see Appendix A), NARA concurred with the facts and conclusions in our report. We did not audit NARA's response; accordingly, we express no opinion on it.

STATUS OF PRIOR-YEAR RECOMMENDATIONS

We reviewed the status of NARA's corrective actions with respect to the material weakness from the prior-year report on internal control. Appendix B to this report provides details of the status of recommendations.

Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our audit of NARA's financial statements. The second report is on our tests of NARA's compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of NARA management, NARA Office of Inspector General, the Government Accountability Office, OMB, the Congress of the United States, and those who have read NARA's financial statements, our report on those financial statements, and our report on compliance with laws and regulations. This report is not intended to be and should not be used by anyone other than those parties.

COTTON & COMPANY LLP



Colette Y. Wilson, CPA
Partner

Alexandria, Virginia
November 14, 2012

Management Response to Auditor's Report (FY 2012)

APPENDIX A MANAGEMENT COMMENTS



NATIONAL
ARCHIVES

ARCHIVIST of the
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14 November 2012

To: James Springs, Acting Inspector General
From: David S. Ferriero, Archivist of the United States
Subject: Management Response to the FY 2012 Financial Statement Audit

Thank you for the opportunity to respond to your reports, *Independent Auditor's Report on Internal Control* and *Independent Auditor's Report on Compliance with Laws and Regulations*.

I am pleased to have received an unqualified opinion for NARA's FY 2012 financial statements. I appreciate that the independent auditor has recognized our progress in improving financial management at NARA by removing last year's material weakness over financial reporting.

I would like to thank the Office of Inspector General and the Cotton & Company, LLP for their cooperation and efforts to ensure a smooth and efficient audit.

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APPENDIX B
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
STATUS OF PRIOR-YEAR RECOMMENDATIONS
SEPTEMBER 30, 2012

APPENDIX B
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
STATUS OF PRIOR-YEAR RECOMMENDATIONS
SEPTEMBER 30, 2012

We present below the status of recommendations from our prior-year report on internal control over financial reporting and compliance with laws and regulations. In our FY 2011 report, we noted a material weakness related to the review of manual journal entries. NARA has taken corrective actions and our finding and recommendations have been closed.

Condition and Recommendation	Status as of September 30, 2012
Review of Manual Journal Entries	
We recommend that:	Closed
1. BCF develop, document, and implement procedures that require the review and approval of all manual journal entries prepared and submitted during and after the normal adjustment period. In addition, management should communicate these procedures to all involved in the process.	
2. BCR, as well as other offices, thoroughly review the methodologies and supporting documentation for all journal entries approved and submitted for financial reporting throughout the year (as required by current procedures).	Closed



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The Inspector General
National Archives and Records Administration

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and have issued our report thereon dated November 14, 2012. 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) audit guidance.

NARA management is responsible for complying with laws and regulations applicable to NARA. As part of obtaining reasonable assurance about whether NARA's financial statements are free of material misstatements, we performed tests of NARA's compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to NARA. We limited our tests of compliance to those provisions of laws and regulations that OMB audit guidance requires that we test that we deemed applicable to the financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

Our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of material noncompliance that are required to be reported under *Government Auditing Standards* and OMB audit guidance.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit; accordingly, we do not express such an opinion.

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our audit of NARA's financial statements. The second report is on NARA's internal control over financial reporting and over compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of NARA management, NARA Office of Inspector General, the Government Accountability Office, OMB, the Congress of the United States, and those who have read NARA's financial statements, our report on those financial statements, and our

report on internal control. This report is not intended to be and should not be used by anyone other than those parties.

COTTON & COMPANY LLP



Colette Y. Wilson
Partner

Alexandria, Virginia
November 14, 2012

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