

November 2004

FINANCIAL AUDIT

Congressional Award
Foundation's Fiscal
Years 2003 and 2002
Financial Statements



G A O

Accountability * Integrity * Reliability

Contents

Letter	1
Auditor's Report	3
Opinion on Financial Statements	3
Opinion on Internal Control	4
Compliance with Laws and Regulations	6
The Foundation's Ability to Continue as a Going Concern	6
Objectives, Scope, and Methodology	8
Foundation's Comments	9
Financial Statements	11
Statements of Financial Position	11
Statements of Activities	12
Statements of Cash Flows	13
Notes to Financial Statements	14

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, D.C. 20548

November 15, 2004

The President of the Senate
The Speaker of the House of Representatives

This report presents our opinion on the financial statements of the Congressional Award Foundation for the fiscal years ended September 30, 2003, and 2002. These financial statements are the responsibility of the Congressional Award Foundation. This report also presents (1) our opinion on the effectiveness of the Foundation's related internal control as of September 30, 2003, and (2) our conclusion on the Foundation's compliance in fiscal year 2003 with selected provisions of laws and regulations we tested. We conducted our audit pursuant to section 8 of the Congressional Award Act, as amended (2 U.S.C. 807), and in accordance with U.S. generally accepted government auditing standards.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9521 or Julie Phillips, Assistant Director, at (202) 512-5121. You can also reach us by e-mail at sebastians@gao.gov or phillipsjt@gao.gov. Key contributors to this report were Greg Ziombra and Charles Ego.

Steven J. Sebastian
Director
Financial Management and Assurance



United States Government Accountability Office
Washington, D.C. 20548

The President of the Senate
The Speaker of the House of Representatives

We have audited the statements of financial position of the Congressional Award Foundation (the Foundation) as of September 30, 2003, and 2002, and the related statements of activities and statements of cash flows for the fiscal years then ended. We found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, although substantial doubt exists about the Foundation's ability to continue as a going concern;
- the Foundation did not have effective internal control over financial reporting (including safeguarding assets) but did have effective control over compliance with laws and regulations; and
- no reportable noncompliance with the provisions of laws and regulations we tested.

The following sections provide additional detail about our conclusions and the scope of our audit.

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Foundation's financial position as of September 30, 2003, and 2002, and the results of its activities and its cash flows for the fiscal years then ended. However, material misstatements may nevertheless occur in information reported by the Foundation on its financial status to its Board of Directors as a result of the material weakness in financial reporting described in this report.

As discussed in a later section of this report and in Note 12 to the financial statements, the Foundation continues to experience increasing difficulties in meeting its financial obligations. The Foundation's continuing financial difficulties and deteriorating financial condition raise substantial doubt, for the second consecutive year, about its ability to continue as a going

concern.¹ The financial statements have been prepared under the assumption that the Foundation will continue as a going concern, and do not include any adjustments that might need to be made if the operations of the Foundation were to cease.²

Opinion on Internal Control

Because of the material weakness in internal controls discussed below, the Foundation did not have effective internal control over financial reporting (including safeguarding assets) but did have effective control over compliance with laws and regulations. The Foundation did not provide reasonable assurance that misstatements and losses material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established in our *Standards for Internal Control in the Federal Government*.³

The deteriorating financial condition of the Foundation led to deterioration in its controls over its financial reporting process, impeding its ability to prepare timely and complete financial statements without the need for significant revisions. The lack of a full-time individual with financial management expertise, brought about by the Foundation's lack of funds, prevented it from fulfilling this and other key financial reporting responsibilities, and contributed to its inability to maintain current and accurate financial records.

During fiscal year 2003, the Foundation's Director of Finance and Administration resigned his paid position at the Foundation and became Treasurer of the Congressional Award Board of Directors, an unpaid position. The former Finance and Administration Director continued to perform some of the duties associated with his former position, on a volunteer basis. The continued shortage of funds precluded the Foundation from hiring a replacement. This resulted in the Foundation being unable to fulfill its financial reporting responsibilities, particularly

¹GAO, *Financial Audit: Congressional Award Foundation's Fiscal Years 2002 and 2001 Financial Statements*, (GAO-03-737, May 15, 2003).

²As discussed later, section 108 of the Congressional Award Act (2 U.S.C. Sec. 808) provides that the Congressional Award Board shall terminate on October 1, 2004. The authority for the Foundation is derived from the authority of the Congressional Award Board.

³GAO, *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

with respect to preparing accurate and timely financial statements. For example, because the Foundation did not always record transactions in its general ledger as they occurred during the year, numerous entries and adjustments had to be made to the general ledger after fiscal year-end to ensure it was complete and accurate.

Additionally, the Foundation lacked appropriate written procedures for making closing entries in its financial records and preparing complete and accurate financial statements. The statements initially provided to us by a contractor hired by the Foundation to compile the statements were not reviewed by the Foundation, and contained incorrect balances for most line items, many by significant amounts. The process of preparing complete and accurate statements, including providing supporting schedules and resolving audit issues, took over 6 months from when the Foundation initially agreed to provide the statements and over 12 months from the September 30, 2003, fiscal year end.

In addition to not preparing accurate and timely financial statements, not having appropriate written procedures for preparing financial statements, and not providing for a review of the statements prior to their being provided to us, the lack of a full-time Director of Finance and Administration caused by the Foundation's severe financial condition prevented it from fulfilling other key financial reporting responsibilities, including (1) preparing timely and accurate interim financial statements; (2) updating its financial management policies and procedures; and (3) filing required Internal Revenue Service tax returns, resulting in the Foundation potentially incurring a fine at a time when its financial resources are already limited.

The Foundation was ultimately able to produce financial statements that were fairly stated in all material respects for fiscal years 2003 and 2002. However, the process was long and laborious, due in part to the lack of appropriate written procedures, resulting in the need for substantial corrections between the first draft of the statements and the final version. Additionally, the Foundation's lack of an effective financial reporting process forced us to notify its congressional oversight committees that we would be unable to meet our May 15, 2004, legislatively mandated audit reporting date. Consequently, the Foundation's weakness in internal controls over its financial reporting process resulted in its inability to prepare reliable financial statements on time and to produce financial information to support management decision making.

Foundation management asserted that, with the exception of the material weakness in financial reporting, its internal control was effective based on criteria established under *Standards for Internal Control in the Federal Government*. In making its assertion, Foundation management stated the need to improve controls over financial reporting. Although the weakness did not materially affect the final fiscal year 2003 financial statements, misstatements may nevertheless occur in other Foundation-reported financial information as a result of this material internal control weakness.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations for fiscal year 2003 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The Foundation's Ability to Continue as a Going Concern

The Foundation incurred losses (decreases in net assets) of \$5,990 and \$330,726 in fiscal years 2003 and 2002, respectively. The decreases in net assets were a result of a decline in revenues in fiscal year 2003, due to decreased contributions. In addition, the Foundation experienced operating losses due to significant increases in expenses and unrealized losses (due to equity market declines) in the value of the Foundation's investments in the Congressional Award Trust in fiscal year 2002.

Due to ongoing cash flow problems associated with its daily operations during fiscal year 2002, the Foundation borrowed \$100,000, the maximum amount allowable against its line of credit, which remained outstanding at September 30, 2003. In addition, accounts payable at September 30, 2003, were approximately \$150,000, with 78 percent of that amount representing unpaid balances owed to vendors from expenses incurred in fiscal year 2002. Although the Foundation's expenses for fiscal year 2003 decreased by nearly \$956,000, revenues also decreased by about \$474,000, largely attributable to a nearly \$300,000 decline in in-kind contributions.

At September 30, 2003, about one-third of the Foundation's total assets, or about \$160,000, consisted of contributions pledged by donors. The majority of these contributions receivable were restricted from use until the next fiscal year. As a result of these restrictions and decreases of over \$157,000 in total assets, the Foundation showed a deficit in its unrestricted

operating assets of about \$250,000 at September 30, 2003. This deficit prevented the Foundation from being able to pay off its outstanding liabilities.

Note 12 to the financial statements acknowledges the Foundation's increasing difficulties in meeting its financial obligations. While the Foundation has taken steps to decrease its expenditures, those steps may not be sufficient to allow it to continue operations. Unaudited financial data compiled by the Foundation as of June 30, 2004, showed that the Foundation's financial condition has not improved, thus raising substantial doubt about the Foundation's ability to continue as a going concern, absent a means of generating additional funding.

As discussed earlier, during fiscal year 2003, the Director of Finance and Administration resigned his position at the Foundation and became Treasurer of the Congressional Award Board of Directors. This move was in part because of the Foundation's deteriorating financial condition. In another effort to keep expenses to a minimum, the Foundation has reduced its staff by over one-half since the end of fiscal year 2003. Additionally, during the second half of fiscal year 2004, the Foundation's Board directed the National Director to reduce his pay by 50 percent in order to further control Foundation expenses.

In its plan to deal with its deteriorating financial condition and increase its revenues, the Foundation has modified its approach to fundraising by holding more frequent but smaller and less expensive fundraising events than in the past, and is attempting to secure federal funding. At present, the Foundation is prohibited from receiving federal funds, but is permitted to receive certain in-kind and indirect resources, as explained in Note 5 to the financial statements. On September 29, 2004, the Senate passed S. 2639 to reauthorize the Congressional Award Board, which terminated on October 1, 2004, until October 1, 2009.⁴ This bill also would authorize appropriations to the Board of \$750,000 per year for fiscal years 2005 through 2009. The bill would remove the prohibition regarding receipt of federal funds, replacing it with the stipulation that the Foundation may not accept more than one-half of all funds from federal sources. The bill has been referred to the House of Representatives. The ultimate outcome of these efforts was unknown at the date of our report.

⁴2 U.S.C. Sec. 808.

Objectives, Scope, and Methodology

The Foundation's management is responsible for

- preparing the annual financial statements in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing the Foundation's internal control to provide reasonable assurance that the Foundation's control objectives are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal control, the objectives of, which follow.

- 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 laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by Foundation management;
- evaluated the overall presentation of the financial statements and notes;

-
- reviewed the interim financial statements for the 9-month period ending June 30, 2004;
 - obtained an understanding of the internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;
 - tested relevant internal control over financial reporting and compliance and evaluated the design and operating effectiveness of internal control; and
 - tested compliance with selected provisions of the Congressional Award Act, as amended.

We did not evaluate internal controls relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. 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 the results of our tests of internal control 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.

We did not test compliance with all laws and regulations applicable to the Foundation. We limited our tests of compliance to those provisions of laws and regulations that we deemed to have a direct and material effect on the financial statements for the fiscal year ended September 30, 2003. We caution that noncompliance may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

Foundation's Comments

In commenting on a draft of this report, the Foundation noted that the language used in the opinion on internal control may (1) imply the Foundation has a material amount of assets that are left unguarded or unaccounted for and subject to misappropriation or theft and (2) be interpreted that the Foundation was reluctant or refused to provide assurance on internal control.

We used language specified by auditing standards for reporting on material weaknesses in internal control. Our opinion on the effectiveness of the Foundation's internal control describes the nature and extent of the weaknesses we identified that create the potential for such weaknesses to adversely affect the Foundation's ability to effectively safeguard its assets. With respect to the Foundation's assurance on the effectiveness of internal control, we note in our report that Foundation management specifically asserted that, with the exception of the material weakness in internal control, the Foundation's internal control was effective based on criteria established under *Standards for Internal Control in the Federal Government*. This assertion is embodied in written representations provided to us as part of the financial statement audit.



Steven J. Sebastian
Director
Financial Management and Assurance

October 15, 2004

Financial Statements

Statements of Financial Position

The Congressional Award Foundation
Statements of Financial Position
As of September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets		
Cash and cash equivalents	\$9,206	\$14,448
Investments (note 8)	52,039	50,000
Contributions receivable, net (note 3)	160,021	360,013
Prepaid expense	2,477	2,534
Congressional Award Fellowship Trust (note 4)	230,466	164,612
Equipment, furniture, and fixtures, net	<u>28,925</u>	<u>49,222</u>
Total assets	<u>\$483,134</u>	<u>\$640,829</u>
Liabilities and net assets		
Accounts payable (note 9)	\$150,343	\$274,661
Line of credit (note 8)	100,000	100,000
Accrued payroll, related taxes, and leave	22,209	47,311
Obligation under capital lease	<u>460</u>	<u>2,745</u>
Total liabilities	<u>273,012</u>	<u>424,717</u>
Net assets		
Unrestricted	(250,133)	(408,537)
Temporarily restricted (note 6)	195,798	360,192
Permanently restricted (note 13)	<u>264,457</u>	<u>264,457</u>
Total net assets	<u>210,122</u>	<u>216,112</u>
Total liabilities and net assets	<u>\$483,134</u>	<u>\$640,829</u>

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

Statements of Activities

The Congressional Award Foundation
 Statements of Activities
 For the Fiscal Years Ended September 30, 2003, and 2002

	<u>2003</u>	<u>2002</u>
Changes in unrestricted net assets:		
Operating revenue and other support		
Contributions	\$615,278	\$659,856
Contributions - In-kind (note 5)	33,367	325,585
Program and other revenues	47,950	108,267
Interest and dividends applied to current operations	4,801	4,070
Net assets released from restrictions (note 6)	<u>164,394</u>	<u>241,592</u>
Total operating revenue and other support	\$865,790	1,339,370
Operating expenses (note 11)		
Salaries, benefits, and payroll taxes	554,817	643,186
Program, promotion, and travel	9,516	457,366
Fund-raising expense	24,777	354,034
Gold Award ceremony	15,533	48,933
Professional fees	49,580	91,123
Depreciation	20,296	18,935
Board of Directors expense	2,259	132
Administrative and other expense	<u>84,014</u>	<u>101,863</u>
Total operating expenses	760,792	1,715,572
Subtotal	104,998	(376,202)
Other changes		
Unrealized investment gains (losses) not applied to current operations	61,048	(66,523)
Realized investment gains (losses) not applied to current operations	(7,642)	4,141
Increase (decrease) in unrestricted net assets	158,404	(438,584)
Changes in temporarily restricted net assets:		
Contributions		449,450
Bad debt loss on contributions receivable		(100,000)
Net assets released from restrictions (note 6)	<u>(164,394)</u>	<u>(241,592)</u>
Increase (decrease) in temporarily restricted net assets	(164,394)	107,858
Increase (decrease) in net assets	(5,990)	(330,726)
Net assets at beginning of year	<u>216,112</u>	546,838
Net assets at end of year	<u>\$210,122</u>	<u>\$216,112</u>

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

Statements of Cash Flows

The Congressional Award Foundation
 Statements of Cash Flows
 For the Fiscal Years Ended September 30, 2003, and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Contributions received	\$815,278	\$854,293
Cash received from program activities	47,950	108,267
Interest and dividends received	2,762	4,070
Cash paid to employees	(579,918)	(491,813)
Cash paid to vendors	<u>(276,583)</u>	<u>(624,843)</u>
Net cash provided/(used) from operating activities	9,489	(150,026)
Cash flows from investing activities:		
Purchase of equipment		(4,278)
Purchase of Investments	(146,996)	(50,000)
Proceeds from sale of investments	<u>134,548</u>	130,000
Net cash provided/(used) in investing activities	(12,448)	75,722
Cash flows from financing activities:		
Draws on line of credit		100,000
Payments on capital lease	<u>(2,283)</u>	<u>(3,619)</u>
Net cash provided/(used) in financing activities	(2,283)	96,381
Net increase (decrease) in cash	(5,242)	22,077
Cash at beginning of the year	<u>14,448</u>	<u>(7,629)</u>
Cash at end of year	<u>\$9,206</u>	<u>\$14,448</u>
Reconciliation of change in net assets to net cash provided/(used) from operating activities		
Change in net assets	(\$5,990)	(\$330,726)
Adjustments to reconcile change in net assets to net cash used/provided from operating activities:		
Investment gains and losses not applied to operations	(53,406)	62,321
Loss on disposal		1,367
Depreciation expense	20,296	18,935
Decrease (increase) in contributions receivable	199,992	(155,013)
Decrease (increase) in prepaid expenses	57	1,907
Decrease (increase) in investments	(2,040)	
Increase (decrease) in accounts payable	(124,318)	235,593
Increase (decrease) in accrued payroll, related taxes, and leave	<u>(25,102)</u>	<u>15,590</u>
Net cash provided/(used) from operating activities	<u>\$9,489</u>	<u>(\$150,026)</u>

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

Notes to Financial Statements

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

Note 1. Organization

The Congressional Award Foundation (the Foundation) was formed in 1979 under Public Law 96-114 and is a private, nonprofit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Service code established to promote initiative, achievement, and excellence among young people in the areas of public service, personal development, physical fitness, and expedition. New program participants totaled 3,811 in fiscal year 2003, a slight increase over fiscal year 2002. As of September 30, 2003, there were over 14,000 active participants in the program.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to not-for-profit organizations.

B. Cash Equivalents

The Foundation considers funds held in savings accounts and all highly liquid investments with an original maturity of 3 months or less to be cash equivalents. Money market funds held in the Foundation's Congressional Award Fellowship Trust (the Trust) are not considered cash equivalents.

C. Contributions Receivable

Unconditional promises to give are recorded as revenue when the promise is made. Contributions receivable due at September 30, 2003 were received by June 2004, therefore the balance at year-end was not discounted to its present value.

D. Equipment, Furniture and Fixtures, and Related Depreciation

Equipment, furniture, and fixtures are stated at cost. Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of 5 to 10 years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining life of the lease. Expenditures for major additions and betterments are capitalized; expenditures for maintenance and repairs are charged to expense when incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expense, as appropriate.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

E. Investments

The lone investment consists of a certificate of deposit and is carried at purchase price plus earned interest, which approximates fair value.

F. Classification of Net Assets

The net assets of the Foundation are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for the general support of the Foundation.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for specific programs or future periods.
- Permanently restricted net assets result from donor-imposed restrictions stipulating that the resources donated be maintained permanently. The Foundation's permanently restricted net assets consist of contributions to the Foundation's Congressional Award Fellowship Trust Fund (see notes 4 and 13).

G. Revenue Recognition

Contribution revenue is recognized when received or promised and recorded as temporarily restricted if the funds are received with donor or grantor stipulations that limit the use of the donated assets to a particular purpose or for specific periods. When a stipulated time restriction ends or purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

H. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis as described in note 11. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

Note 3 Contributions Receivable

At September 30, 2003, and 2002, promises to give totaled \$160,021 and \$360,013, respectively, of which \$160,000 and \$320,000, respectively, were temporarily restricted by the donors for future periods. At September 30, 2003, and 2002, \$160,000 and \$200,000, respectively, were due within one year. All amounts are considered fully collectible. The promises to give were a result of the "Charter for Youth" fundraising initiative. Charter for Youth benefactors are requested to contribute a minimum of \$100,000 per year for 3 consecutive years for the direct support of The Congressional Award and its initiatives for participant recruitment and awardee recognition. Charter for Youth members have the opportunity to participate in Congressional Award events, and receive recognition as benefactors at Foundation events and meetings.

Note 4 Congressional Award Fellowship Trust

The Congressional Award Fellowship Trust (the Trust Fund) was established in 1990 to benefit the charitable and educational purposes of the Foundation. The Trust Fund has received \$264,457 of contributions since 1990, and were designated as permanently restricted by the donors when the donations were originally made. In accordance with the terms of the Trust Agreement (the Agreement), the Foundation is permitted to use all Trust Fund income for the benefit of the charitable and educational purposes of the Foundation. Trust Fund income represents the value of the Trust Fund's assets (including interest and dividends earned and realized and unrealized gains and losses on Trust Fund investments) in excess of the aggregate amount received as endowment donations. Net gains on investments can only be used in operations with approval of the Foundation's Board. The agreement describes endowment donations as the aggregate fair market value (as of the contribution date) of all donations to the Trust Fund. As defined by the agreement, this represented the amount of the Trust Fund's assets that the Foundation cannot use or distribute. As discussed in note 13, the agreement was subsequently amended to remove the permanent restriction on the original donations.

During fiscal year 2002, the Foundation's Board approved the use of \$130,000 of the Trust Fund to support operations. As of September 30, 2002, the value of the Trust Fund's investments was below the permanently restricted amount of \$264,457 by \$99,845. At the time the distributions were made, they were made from the Trust Fund income as defined by the Trust agreement and did not use permanently restricted amounts. Subsequently, the balance of the Trust Fund dropped below the permanently restricted amount due to adverse market conditions. Due to a recovery in the equity markets, the value of the Trust Fund's investments below the permanently restricted amount was reduced to \$33,991 at September 30, 2003.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

At September 30, 2003, and 2002, the Trust Fund's investments at fair value consisted of the following:

Description	_at September 30	
	2003	2002
Equity and debt securities	\$184,612	\$157,670
Money market funds	<u>45,854</u>	<u>6,942</u>
Total	\$230,466	\$164,612

Activity in the Trust Fund for the fiscal years ended September 30, 2003, and 2002 was as follows:

	_September 30,	
	2003	2002
Interest and dividends	\$4,801	\$ 4,130
Net realized gains (losses)	(7,642)	4,141
Net unrealized gains (losses)	<u>61,048</u>	<u>(66,523)</u>
Total investment gains (losses)	58,207	(58,252)
Transfer to operations	--	(130,000)
Investment earnings applied to current operations	<u>7,647</u>	<u>(4,070)</u>
Net change in Trust Fund investments	65,854	(192,322)
Trust Fund investments, beginning of year	<u>164,612</u>	<u>356,934</u>
Trust Fund investments, end of year	\$230,466	\$ 164,612
Value of Trust Fund (below) or above permanently restricted balance	<u>(\$33,991)</u>	<u>(\$ 99,845)</u>

Note 5. In-kind Contributions

The Foundation received in-kind (noncash) contributions from donors, which are accounted for as contribution revenue and current period operating expenses. These noncash contributions are as follows.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

	<u>2003</u>	<u>2002</u>
Promotional support		\$ 281,221
Professional services (legal and web hosting)	\$33,367	44,364
Total in-kind contributions	33,367	\$ 325,585

In addition, Section 7(c) of Public Law 101-525, the Congressional Award Amendments of 1990, provided that "the Board may benefit from in-kind and indirect resources provided by the Offices of Members of Congress or the Congress." Resources so provided include use of office space, office furniture, and certain utilities. In addition, section 3 of the Congressional Award Act, as amended, provides that the United States Mint may charge the United States Mint Public Enterprise Fund for the cost of striking Congressional Award Medals. The costs of these resources cannot be readily determined and, thus, are not included in the financial statements.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2003, and 2002 were available for the following programs and future periods:

	<u>2003</u>	<u>2002</u>
Contributions restricted for use in 2004	\$ 160,000	\$160,000
Contributions restricted for use in 2003		\$160,000
Puerto Rico Council development	17,722	17,930
Nevada Council development	14,047	16,126
Oklahoma Council development	4,029	6,136
Total	\$195,798	\$360,192

Net assets released from restrictions during the years ended September 30, 2003, and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
Contributions restricted for use in fiscal years 2003 and 2002, respectively	\$160,000	\$225,000
Puerto Rico Council development	208	7,070
Nevada Council development	2,079	2,421
Mississippi Council development	0	1,682
Oklahoma Council development	2,495	969
DC Council development	0	2,000
South Dakota Council Development	(388)	2,450
Total	\$164,394	\$241,592

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

Note 7. Employee Retirement Plan

For the benefit of its employees, the Foundation participates in a voluntary 403(b) tax-deferred annuity plan, which was activated on August 27, 1993. Under the plan, the Foundation may, but is not required to, make employer contributions to the plan. For fiscal year 2002, the Board voted to make matching contributions to qualified employees of up to 6 percent, which amounted to \$9,658. There was no contribution to the plan in fiscal year 2003.

Note 8. Line of Credit

The Foundation has a \$100,000 line of credit with its bank that bears interest at 6 percent per annum. The line of credit is partially secured by the Foundation's investment in a certificate of deposit held by the same bank, which after interest earnings had increased from \$50,000 at September 30, 2002 to \$52,039 at September 30, 2003. The outstanding balance on the line of credit was \$100,000 at September 30, 2002, and 2003.

Note 9. Accounts Payable

The accounts payable balance of \$150,343 at September 30, 2003, is comprised of \$116,765 attributable to goods and services received in fiscal year 2002 and \$33,578 attributable to goods and services received in fiscal year 2003. The accounts payable balance at September 30, 2002 was \$274,661.

Note 10. Related Party Activities

The Director of Finance and Administration resigned, effective September 2003, becoming the Controller and Treasurer of Compressus, Inc. and the Congressional Award Board of Director's Treasurer. The Board's Chairman is President of Compressus, Inc. Both individuals serve on the Executive Committee of the Board of Directors and are trustees for the Congressional Award Fellowship Trust. In this latter capacity, they have decision-making authority over the operations of the Trust, including the authority to withdraw funds from the Trust. The Treasurer continues to assist with Foundation finance and administrative matters on a voluntary basis. Prior to being elected Treasurer, this circumstance was considered by the Board of Directors. The cost of the services provided by the Board Chairman and the Treasurer cannot be readily determined and thus are not included in the financial statements.

During fiscal years 2003 and 2002, an ex-officio director of the Board provided pro bono legal services to the Foundation. The value of legal services has been included in the in-kind contributions and professional fees line items (see note 5).

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

In addition, a director of the Board served as portfolio manager with the brokerage firm responsible for managing the Congressional Award Fellowship Trust account during fiscal years 2003 and 2002. An investment committee of the Board establishes investment guidelines and monitors the portfolio's performance.

In June 2002, the National Director, Director of Finance, and the Director of Development of the Foundation used their personal credit cards to advance deposits and other costs related to the 2002 Gala in the amount of \$39,077. Due to lower than expected Gala sponsorships, funds were not available to reimburse these persons in a timely manner. On October 26, 2002, the National Director advanced the Foundation an additional \$1,280 by paying the answering service used to field program calls, thus avoiding cancellation of this service. On November 2, 2002, the National Director attended a donor reception in London, England and advanced the Foundation \$4,041 to pay for a reception and dinner. The amounts due the National Director, Director of Finance, and Director of Development were paid in full by September 30, 2003.

Note 11 Expenses by Functional Classification

As permitted by SFAS No. 117, the Foundation has presented its operating expenses by natural classification in the accompanying Statements of Activities for the fiscal years ending September 30, 2003, and 2002. Presented below are the Foundation's September 30, 2003, and 2002 expenses by functional classification for the fiscal years ended.

	2003	2002
Program activities	\$292,182	\$852,375
Fund-raising activities	168,336	616,018
Administrative activities	300,274	247,179
Total	\$760,792	\$1,715,572

For the fiscal year ended September 30, 2002, the Foundation incurred joint costs of \$248,632 related to the 2002 gala, of which \$108,260 and \$140,372 were allocated to program and fundraising, respectively. The gala was not held in fiscal year 2003.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements

Note 12. The Foundation's Ability to Continue as a Going Concern

The Congressional Award Foundation is dependent on contributions to fund its operations and, to a far lesser extent, other revenues, interest, and dividends. The Foundation's net assets decreased by \$5,990 and \$330,726 in 2003 and 2002, respectively. The decreases in net assets were a result of operating losses and unrealized losses in the value of the Foundation's investments in the Congressional Award Trust in previous years. As a result, the Foundation continues to experience difficulty in meeting its obligations.

While the Foundation has taken steps to decrease its expenses, those steps may not be sufficient to enable it to continue operations.

Unaudited financial data compiled by the Foundation as of June 30, 2004, showed that the Foundation's financial condition has not improved. The continuing deterioration in the Foundation's financial condition raises substantial doubt about its ability to continue as a going concern.

Note 13. Subsequent Events

The Congressional Award Board's authorization expired on October 1, 2004. The United States Senate passed a bill (S. 2639) on September 29, 2004 to reauthorize the program through fiscal year 2009. The bill contained an amendment that provides federal funding of \$750,000 per year to the program for fiscal years 2005-2009.

The Congressional Award Fellowship Trust was amended, effective December 2003. The amended Trust agreement, as agreed to by the original donor, provides that there will no longer be permanently restricted assets held in the Trust and that the Trustees may use Trust income and assets for operations, including liquidating prior obligations.

The National Director retired, effective September 30, 2004. The Board of Directors nominated and confirmed the current Senior Program Manager to be Acting National Director, effective October 1, 2004.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Susan Becker, Acting Manager, BeckerS@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548