

November 2005

FINANCIAL AUDIT

Congressional Award
Foundation's Fiscal
Years 2004 and 2003
Financial Statements



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

November 4, 2005

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, 2004, and 2003. 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, 2004, and (2) our conclusion on the Foundation's compliance in fiscal year 2004 with selected provisions of laws and regulations we tested. We conducted our audit pursuant to section 107 of the Congressional Award Act, as amended (2 U.S.C. § 807), and in accordance with U.S. generally accepted government auditing standards. This report also includes our determination required under section 104 (c)(2)(A) of the Act (2 U.S.C. § 804(c)(2)(A)) relating to the Foundation's financial operations.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or by e-mail at sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Key contributors to this report were Amy Bowser, Erik Huff, Julie Phillips, and Patricia Summers.

Steven J. Sebastian
Director
Financial Management and Assurance



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

November 4, 2005

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, 2004, and 2003, 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) and compliance with laws and regulations; and
- a reportable noncompliance with one of the 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, 2004, and 2003, 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 and others as a result of the material weakness¹ in internal control over financial reporting described in this report.

¹ A material weakness is a reportable condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the financial statements would be prevented or detected on a timely basis. Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the Foundation's ability to meet the objectives 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 third consecutive year, about its ability to continue as a going concern.² The financial statements have been prepared under the assumption that the Foundation would continue as a going concern, and do not include any adjustments that would need to be made if the Foundation were to cease operations.

Opinion on Internal Control

Because of the material weakness in internal control discussed below, the Foundation did not maintain effective internal control over financial reporting (including safeguarding assets) or compliance with laws and regulations, and thus did not provide reasonable assurance that losses, misstatements, and noncompliance with laws 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 further deterioration in its control over its financial reporting process during fiscal year 2004, impeding its ability to prepare timely and accurate financial statements. The lack of an individual with accounting and financial management expertise taking responsibility for the Foundation's financial operations during the period, brought about by the Foundation's lack of funds, prevented it from fulfilling this and other key financial operations, and contributed to its inability to maintain current and accurate financial records. We reported on this matter during our audit of the Foundation's fiscal year 2003 financial statements.

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, during fiscal year 2003. He

² GAO, *Financial Audit: Congressional Award Foundation's Fiscal Years 2002 and 2001 Financial Statements*, GAO-03-737 (Washington, D.C.: May 15, 2003) and GAO, *Financial Audit: Congressional Award Foundation's Fiscal Years 2003 and 2002 Financial Statements*, GAO-05-132 (Washington, D.C.: Nov. 15, 2004).

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

continued to perform, on a limited and voluntary basis, some of the duties associated with his former position during the first three quarters of fiscal year 2004, as the continued shortage of funds precluded the Foundation from hiring a replacement. This resulted in the Foundation continuing to be unable to fulfill its financial reporting responsibilities, particularly with respect to preparing timely and accurate financial statements. For example, because the Foundation did not always record transactions in its general ledger as they occurred during the year, numerous entries had to be made to the general ledger as late as 12 months after fiscal year-end. These entries were ultimately prepared and recorded by a part-time bookkeeper hired 6 months after the end of the fiscal year. However, these entries were not adequately reviewed by Foundation management to ensure their completeness and accuracy. This resulted in the need for management to make material adjustments to correct errors we identified during our audit.

Additionally, the Foundation continued to lack appropriate written procedures for making closing entries in its financial records and for preparing complete and accurate financial statements. At the conclusion of our audit of the Foundation's fiscal year 2003 financial statements, we stressed to the Foundation's management the importance of documenting the Foundation's financial reporting policies and procedures, and further stressed that the policies and procedures should detail such functions as the monthly closing procedures, preparation of the financial statements, and review of financial data by management. The continued lack of written policies and procedures contributed to the errors we identified during our audit of the Foundation's fiscal year 2004 financial statements.

The Foundation was ultimately able to produce financial statements that were fairly stated in all material respects for fiscal years 2004 and 2003. However, the process was long and laborious, due to the lack of 1) appropriate written policies and procedures and 2) routine maintenance of the Foundation's financial books and records by personnel experienced in accounting and financial management. As a result, material corrections were required between the first draft of the financial statements and the final version. Additionally, the Foundation's continued lack of an effective financial reporting process forced us for the second consecutive year to notify its congressional oversight committees that we would be unable to meet our May 15, 2005, statutorily mandated audit reporting date. Consequently, the Foundation's weakness in internal control 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. This is especially critical in light of

the Foundation's precarious financial condition—when accurate and timely financial information is of utmost importance to make prudent and informed operational decisions.

Foundation management asserted that its internal control during the period were not effective over financial reporting or compliance with laws and regulations based on criteria established under *Standards for Internal Control in the Federal Government*. In making its assertion, Foundation management stated the need to improve control over financial reporting and compliance with laws and regulations. Although the weakness did not materially affect the final fiscal year 2004 financial statements as adjusted for misstatements identified by the audit process, this deficiency in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Foundation may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Our tests for compliance with relevant provisions of laws and regulations disclosed one area of material noncompliance that is reportable under U.S. generally accepted government auditing standards. This concerns the Foundation's ability to ensure that it has appropriate procedures for fiscal control and fund accounting and that its financial operations are administered by personnel with expertise in accounting and financial management.

Specifically, section 104(c)(1) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(1)), requires the Director, in consultation with the Congressional Award Board, to “ensure that appropriate procedures for fiscal control and fund accounting are established for the financial operations of the Congressional Award Program, and that such operations are administered by personnel with expertise in accounting and financial management.” The Comptroller General is required by section 104(c)(2)(A) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(2)(A)), to (1) annually determine whether the Director has substantially complied with the requirement to have appropriate procedures for fiscal control and fund accounting for the financial operations of the Congressional Award Program and to have personnel with expertise in accounting and financial management to administer the financial operations, and (2) report the findings in the annual audit report.

We reported a material internal control weakness in financial reporting—due in part, to a lack of written policies and procedures—in our audit report covering fiscal year 2003. For calendar year 2004, the Foundation still did not have appropriate written fiscal procedures for its financial operations. Additionally, the Foundation recorded entries for only half of the calendar year, leaving many of the financial transactions of the Foundation unrecorded during 2004.

For 2004, because the Foundation did not have appropriate fiscal procedures and did not have an individual with expertise in accounting and financial management to routinely administer the procedures and account for the financial operations of the Foundation, we determined that the Director did not substantially comply with the requirements in section 104(c)(1) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(1)).⁴ Under the requirements of section 104(c)(2)(B) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(2)(B)), if the Director fails to comply with the requirements of section 104(c)(1) of the Act, the Director is to prepare, pursuant to section 108 of the Act,⁵ for the orderly cessation of the activities of the Board. The Foundation's Board Chairman stated that during fiscal year 2005, its Board elected several new Board Members and the Foundation hired an accountant to focus on improving financial management. The newly elected Treasurer and Audit Committee Chair are working with the National Office staff to improve internal control over financial reporting and develop written fiscal policies and procedures for financial operations and reporting. Additionally, the accountant is to help ensure the accurate and timely accounting and reporting of financial information occurs.

Except as noted above, our tests for compliance with selected provisions of laws and regulations for fiscal year 2004 disclosed no other instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was

⁴ As a result of our determination pursuant to section 104(c)(2)(A) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(2)(A)), and the material weakness in internal control over the Foundation's financial reporting discussed above, which was attributable to the lack of written policies and procedures and the lack of appropriate administration of the Foundation's financial operations, the Foundation lacks effective control over its compliance with applicable laws.

⁵ Section 108 of the Congressional Award Act, as amended (2 U.S.C. § 808), states that the Congressional Award Board shall terminate on October 1, 2004.

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 almost \$168,000 and \$6,000 in fiscal years 2004 and 2003, respectively. Although the Foundation's expenses decreased by over \$166,000 between fiscal years 2003 and 2004, revenues decreased even more—by about \$290,000, largely attributable to a nearly \$334,000 decline in contributions. Net assets as of September 30, 2004 were approximately \$42,000.

During fiscal year 2002, the Foundation borrowed \$100,000, the maximum amount allowable against its revolving line of credit, due to ongoing cash flow problems associated with its daily operations. This debt, partially secured by a \$50,000 certificate of deposit, remained outstanding at September 30, 2004.

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 and liabilities, those steps may not be sufficient to allow it to continue operations. For example, accounts payable at September 30, 2004, were approximately \$135,500, with 86 percent of that amount representing unpaid balances owed to vendors from expenses incurred in fiscal year 2002. The Foundation was able to negotiate with certain of its vendors to cancel nearly \$39,000 in liabilities to these vendors subsequent to the end of the fiscal year. However, unaudited financial data compiled by the Foundation as of September 30, 2005, showed that its financial condition has not improved. This raises 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 reduced its staff by over one-half during fiscal year 2004. 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. The National Director retired as of September 30,

2004, and the Foundation promoted the Program Director to serve as the Acting National Director.

In its plan to deal with its deteriorating financial condition and increase its revenues, the Foundation modified its approach to fundraising by holding more frequent but smaller and less expensive fundraising events than in the past. However, these smaller fundraisers did not increase contributions which, as noted above, decreased by \$334,000 or 54 percent between fiscal years 2003 and 2004. To further improve fundraising efforts, the Foundation stated that its Board created a Congressional Liaison Committee, Development Committee, and Program Committee during fiscal year 2005. The newly elected Development Chairperson is leading fundraising initiatives in the corporate community, including pursuing grant opportunities, and the Foundation continues to work with professional fundraisers to more actively involve congressional members. 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. The Foundation has attempted, but has been unsuccessful, in securing federal funding through a direct appropriation.

On July 14, 2005, the Senate passed S. 335 to reauthorize the Congressional Award Board, which terminated on October 1, 2004,⁶ until October 1, 2009. The bill was received in the House of Representatives and was referred to the Committee on Education and the Workforce on July 19, 2005. Subsequently, on September 22, 2005, H.R. 3867, which is identical to S. 335, was introduced in the House to reauthorize the Board and was also referred to the Committee on Education and the Workforce. The ultimate outcome of the reauthorization efforts was unknown at the date of our report.

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;

⁶ Section 108 of the Congressional Award Act, as amended (2 U.S.C. § 808), provides that the Congressional Award Board shall terminate on October 1, 2004. Pursuant to section 106 of the Congressional Award Act, as amended (2 U.S.C. § 806), the authority for the Foundation is derived from the authority of the Congressional Award Board.

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- 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 are the following.

- 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;
- read unaudited financial information for the Foundation for fiscal year 2005;
- 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 control 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.

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, 2004. 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 discussed past and ongoing efforts to obtain reauthorization for the Foundation, as well as its efforts to improve its financial condition through increases in revenues and reductions in expenses to support the growth in the Congressional Award program. The Foundation also discussed its efforts to improve its financial management.

The Foundation noted that in fiscal year 2004, a bill to reauthorize the Foundation and provide it authority to receive direct federal appropriations of \$750,000 of matched funds annually through 2009 was passed unanimously by the Senate. However, the bill did not pass the House of Representatives. Since then, the Foundation has continued to seek reauthorization of the program, excluding the provision for federal appropriations. The Foundation noted that legislation reauthorizing the Foundation again passed the Senate in 2005, and is currently being considered by the House of Representatives.

The Foundation also noted its efforts to increase revenues. With newly appointed Foundation Board Members and fundraising consultants, the Foundation stated it had developed ways to recruit new donors and keep

current and former donors informed and engaged. In order to raise awareness and funding for the program, the Foundation holds events with members of Congress in Washington, D.C. Several events were held in fiscal year 2004 and similar fund-raising events continued in fiscal year 2005. In addition, the Foundation noted that it continued to hold its annual Congressional Award Golf Classic during 2005 as another fundraising event.

At the same time, the Foundation noted that it continues to keep its expenses down. The Foundation noted that in fiscal year 2004, it had reduced operating expenses to less than \$595,000 (down from about \$760,000 in fiscal year 2003) and reduced its staff by 50 percent. The Foundation stated that it currently has only five full-time employees and four unpaid interns to oversee program activity in all 50 states. With the program continuing to grow, the Foundation stated that it is using new methods to operate the program at very little cost. By utilizing the Web site and online tools, the Foundation stated that it is able to communicate with new and current participants, parents, volunteers, congressional offices, and donors electronically, which minimizes printing, postal, and travel expenses.

The Foundation also emphasized its efforts to improve its financial management, noting that the newly elected Treasurer and Audit Committee Chair are working with the Foundation's National Office staff to improve internal control over financial reporting and develop written fiscal policies and procedures for financial operations and reporting. The Foundation noted that the accountant it hired in 2005 will help ensure that accurate and timely accounting and reporting of financial information occurs.



Steven J. Sebastian
Director
Financial Management and Assurance

October 21, 2005

Financial Statements

Statements of Financial Position

The Congressional Award Foundation
Statements of Financial Position
As of September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$6,616	\$9,206
Investments	53,611	52,039
Contributions receivable, net (note 3)	60,573	160,021
Prepaid expense	3,545	2,477
Congressional Award Fellowship Trust (note 4)	195,551	230,466
Equipment, furniture, and fixtures, net	<u>15,848</u>	<u>28,925</u>
Total assets	<u>\$335,744</u>	<u>\$483,134</u>
Liabilities and net assets		
Accounts payable (note 9)	\$135,503	\$150,343
Line of credit (note 8)	100,000	100,000
Accrued payroll, related taxes, and leave	57,613	22,209
Obligation under capital lease	<u>462</u>	<u>460</u>
Total liabilities	<u>293,578</u>	<u>273,012</u>
Net assets		
Unrestricted (note 4)	10,540	(250,133)
Temporarily restricted (note 6)	31,626	195,798
Permanently restricted (note 4)	<u>0</u>	<u>264,457</u>
Total net assets	<u>42,166</u>	<u>210,122</u>
Total liabilities and net assets	<u>\$335,744</u>	<u>\$483,134</u>

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

Financial Statements

Statements of Activities

**The Congressional Award Foundation
Statements of Activities
For the Fiscal Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Operating revenue and other support		
Contributions	\$281,528	\$615,278
Contributions - In-kind (note 5)	94,596	33,367
Program and other revenues	31,870	47,950
Interest and dividends applied to current operations	3,745	4,801
Net assets released from restrictions (note 6)	<u>164,171</u>	<u>164,394</u>
Total operating revenue and other support	575,910	865,790
Operating expenses (note 11)		
Salaries, benefits, and payroll taxes	375,931	554,817
Program, promotion, and travel	10,659	9,516
Fund-raising expense	26,127	24,777
Gold Award ceremony	16,478	15,533
Professional fees	101,300	49,580
Depreciation	13,077	20,296
Board of Directors expense	6,879	2,259
Administrative and other expense	<u>44,007</u>	<u>84,014</u>
Total operating expenses	594,458	760,792
Subtotal	(18,548)	104,998
Other changes		
Unrealized investment gains not applied to current operations	16,432	61,048
Realized investment (losses) not applied to current operations	(1,669)	(7,642)
(Decrease) increase in unrestricted net assets	(3,785)	158,404
Changes in temporarily restricted net assets:		
Net assets released from restrictions (note 6)	<u>(164,171)</u>	<u>(164,394)</u>
(Decrease) increase in temporarily restricted net assets	(164,171)	(164,394)
(Decrease) increase in net assets	(167,956)	(5,990)
Net assets at beginning of year	<u>210,122</u>	<u>216,112</u>
Net assets at end of year	<u>\$42,166</u>	<u>\$210,122</u>

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

Financial Statements

Statements of Cash Flows

**The Congressional Award Foundation
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Contributions received	\$381,528	\$815,278
Cash received from program activities	31,870	47,950
Interest and dividends received	2,173	2,762
Cash paid to employees	(340,527)	(579,918)
Cash paid to vendors	<u>(88,017)</u>	<u>(276,583)</u>
Net cash provided/(used) from operating activities	(12,973)	9,489
Cash flows from investing activities:		
Purchase of investments	0	(146,996)
Proceeds from sale of investments	<u>10,383</u>	<u>134,548</u>
Net cash provided/(used) in investing activities	10,383	(12,448)
Cash flows from financing activities:		
Payments on capital lease	0	(2,283)
Net cash provided/(used) in financing activities	0	(2,283)
Net (Decrease) increase in cash	(2,590)	(5,242)
Cash at beginning of the year	<u>9,206</u>	<u>14,448</u>
Cash at end of year	<u>\$6,616</u>	<u>\$9,206</u>
Reconciliation of change in net assets to net cash provided/(used) from operating activities		
Change in net assets	(\$167,956)	(\$5,990)
Adjustments to reconcile change in net assets to net cash used/provided from operating activities:		
Investment (losses) not applied to operations	(5,388)	(53,406)
Depreciation expense	13,077	20,296
Decrease (increase) in contributions receivable	100,000	199,992
(Increase) decrease in accounts receivable	(242)	0
(Increase) decrease in prepaid expenses	(1,068)	57
(Increase) decrease in Board of Directors prepaid expense	(4,620)	0
Decrease (increase) in investments (money funds/equity securities)	34,915	(2,040)
(Decrease) increase in accounts payable	(14,840)	(124,318)
Increase (Decrease) in accrued payroll, related taxes, and leave	34,867	(25,102)
(Increase) decrease in Gold Award Ceremony	(945)	0
(Increase) decrease in program, promotion, and travel	(1,393)	0
Decrease (increase) in Plan 403(b)	<u>620</u>	<u>0</u>
Net cash provided/(used) from operating activities	<u>(\$12,973)</u>	<u>\$9,489</u>

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

Notes to Financial Statements

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003**

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 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 over 2,700 in fiscal year 2004. During fiscal year 2004, there were over 17,000 participants registered in the Foundation Award's program. Certificates and medals were awarded to 2,205 participants during fiscal year 2004. In October 1999, the President signed Public Law 106-63, section 1(d) of which reauthorized the Congressional Award Foundation through September 30, 2004.

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 its checking account 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 Trust (the Trust) are not considered cash equivalents for financial statement reporting purposes. The Declaration of Trust of the Congressional Award Trust was amended, with the consent of the original declarants of the Trust and the Trustees, effective December 2003. Among other changes, the Amended Trust Declaration removes the restriction on the use of endowment donations. The Trustees may now apply any trust funds for the benefit of the Foundation.

C. Contributions Receivable

Unconditional promises to give are recorded as revenue when the promises are made. Contributions receivable to be collected within less than one year are measured at net realizable 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

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003**

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.

E. Investments

Investments consist of equity securities, money market funds, and a \$50,000 certificate of deposit and are stated at market 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 are maintained permanently.

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
For the Fiscal Years Ended September 30, 2004, and 2003**

Note 3. Contributions Receivable

At September 30, 2004, and 2003, promises to give totaled \$60,573 and \$160,021, respectively, of which \$0 and \$160,000, respectively, were due within 1 year. All amounts have subsequently been collected. At September 30, 2004, and 2003, \$31,626 and \$195,798, respectively, were temporarily restricted by donors for future periods. For fiscal year 2003, 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 awardees recognition. Charter for Youth members have the opportunity to participate in Congressional Award events, and receive recognition as benefactors at the national and regional events and meetings.

Note 4. Unrestricted and Permanently Restricted Net Assets

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, which were designated as permanently restricted by the donors when the donations were originally made. In accordance with the terms of the 1990 Trust Agreement (the Agreement), the Foundation was 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. Proceeds from 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 represents the amount of the Trust Fund's assets that the Foundation could not use or distribute.

During the fiscal year ending September 30, 2004, the trust conditions changed. The Declaration of Trust of the Congressional Award Trust was amended, with the consent of the original declarants of the Trust and the Trustees, effective December 2003. Among other changes, the Amended Trust Declaration removes the permanent restriction on the use of endowment donations. The Trustees must approve any Trust Fund amounts for unrestricted use by the Foundation. Also, during the fiscal year ended September 30, 2004, the Trustee's authorized and the Foundation's Board approved the use of \$34,915 of the Trust Fund to support 2004 operations.

At September 30, 2004, and 2003, the Trust Fund's investments at fair value consisted of the following:

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Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003

<u>Description</u>	<u>At September 30,</u>	
	<u>2004</u>	<u>2003</u>
Equity and debt securities	\$ 188,978	\$ 184,612
Money market funds	<u>6,573</u>	<u>45,854</u>
Total	<u>\$ 195,551</u>	<u>\$ 230,466</u>

Activity in the Trust Fund for the fiscal years ended September 30, 2004, and 2003 was as follows:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
Interest and dividends	\$ 3,745	\$ 4,801
Net realized gains (losses)	(1,669)	(7,642)
Net unrealized gains	<u>16,432</u>	<u>61,048</u>
Total investment gains	18,508	58,207
Investments transferred to current operations	<u>(55,092)</u>	<u>0</u>
Investment earnings applied to current operations	<u>1,669</u>	<u>7,647</u>
Net change in Trust Fund investments	(34,915)	65,854
Trust Fund investments, beginning of year	<u>230,466</u>	<u>164,612</u>
Trust Fund investments, end of year	<u>\$ 195,551</u>	<u>\$ 230,466</u>

The value of the Trust Fund at September 30, 2003 dropped below the permanently restricted balance by \$33,991.

Note 5. In-kind Contributions

During fiscal year 2004, the Foundation received in-kind (non-cash) contributions from donors, which are accounted for as contribution revenue and as current period operating expenses. The in-kind contributions received were for professional services relating to support of activities of the Foundation. The value of the in-kind contributions was \$94,596 for fiscal year 2004 and \$33,367 for fiscal year 2003. In 2004, legal activities included several one-time matters including amendment of the Trust Agreement and securing a state ruling for Trust exemption.

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	<u>2004</u>	<u>2003</u>
Professional services:		
Legal	\$ 91,000	\$ 30,000
Web-hosting	3,596	3,367
Total in-kind contributions	<u>\$ 94,596</u>	<u>\$ 33,367</u>

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 102 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, 2004, and 2003 were available for the following programs and future periods:

	<u>2004</u>	<u>2003</u>
Contributions restricted for use in 2004	\$ 0	\$ 160,000
Puerto Rico Council development	17,561	17,722
Nevada Council development	12,282	14,047
Oklahoma Council development	1,783	4,029
Total	<u>\$ 31,626</u>	<u>\$ 195,798</u>

Net assets released from restrictions during the years ended September 30, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Contributions restricted for use in fiscal years 2004 and 2003, respectively	\$ 160,000	\$ 160,000
Puerto Rico Council development	160	208
Nevada Council development	1,765	2,079
Oklahoma Council development	2,246	2,495
South Dakota Council development	0	(388)
Total	<u>\$ 164,171</u>	<u>\$ 164,394</u>

Note 7. Employee Retirement Plan

For the benefit of its employees, the Foundation participates in a voluntary 403(b) tax-

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003**

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. There was no contribution to the plan in 2004 or 2003.

Note 8. Line of Credit

The Foundation has a \$100,000 revolving 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 \$50,000 certificate of deposit held by the same bank. At September 30, 2004 and 2003, the outstanding balance on the line of credit was \$100,000.

Note 9. Accounts Payable

The accounts payable balance of \$135,503 at September 30, 2004, is comprised of \$116,635 attributable to goods and services received in fiscal year 2002, and the remainder attributable to goods and services received in fiscal years 2003 and 2004. The accounts payable balance at September 30, 2003, was \$150,343. Subsequent to the end of fiscal year 2004, there was approximately \$39,000 in accounts payable that were cancelled and converted to an "in-kind" donation. See subsequent events note 13.

Note 10. Related Party Activities

During fiscal year 2004, 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).

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 2004 and 2003.

During March 2004, the Foundation entered into an agreement with a professional fundraiser. Also in 2004, the spouse of this professional fundraiser was elected to the Board of Directors of the Foundation. The professional fundraiser was retained on a 10% commission basis. Expenses incurred by the Foundation during fiscal year 2004 to the related party totaled \$ 9,756.

Note 11. Expenses by Functional Classification

The Foundation has presented its operating expenses by natural classification in the accompanying Statements of Activities for the fiscal years ending September 30, 2004,

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003**

and 2003. Presented below are the Foundation's expenses by functional classification for the fiscal years ended September 30, 2004, and 2003.

	<u>2004</u>	<u>2003</u>
Program activities	\$ 335,529	\$ 292,182
Fund-raising activities	56,243	168,336
Administrative activities	<u>202,686</u>	<u>300,274</u>
Total	<u>\$ 594,458</u>	<u>\$ 760,792</u>

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 incurred decreases in net assets of \$167,956 and \$5,990 in fiscal years 2004 and 2003, respectively. As a result, the Foundation continues to experience difficulty in meeting its obligations. The Foundation has taken steps to substantially decrease administrative expenses, and has implemented numerous initiatives to increase fundraising revenue. The Foundation's ability to continue as a going concern is dependent on increasing revenues. Revenues have been impacted by the fact that the Foundation has not been reauthorized by the Congress. The Foundation has taken all actions necessary to seek reauthorization of the program. Legislation has passed the Senate and is being considered by the House of Representatives.

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 September 30, 2005, 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.

During fiscal year 2005, the Board elected several new Members and the Foundation hired an accountant to focus on improving financial management. The newly elected Treasurer and Audit Committee Chair are working with the National Office staff to improve internal control over financial reporting and develop written fiscal policies and procedures for financial operations and reporting. The accountant is expected to provide accurate and timely accounting and reporting.

To improve fundraising efforts, the Board created a Congressional Liaison Committee, Development Committee, and Program Committee during fiscal year 2005. The newly elected Development Chairperson is leading fundraising initiatives in the corporate community, including pursuing grant opportunities, and the Foundation continues to work with professional fundraisers to more actively involve congressional members. These events should generate funds from new donors and provide opportunities to maintain relations with current Foundation supporters.

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2004, and 2003**

Note 13. Subsequent Events

On July 14, 2005, the Senate passed S. 335 to reauthorize the Congressional Award Board, which terminated on October 1, 2004, until October 1, 2009. The bill was received in the House of Representative and was referred to the Committee on Education and the Workforce on July 19, 2005. Subsequently, on September 22, 2005, H.R. 3867, which is identical to S. 335, was introduced in the House to reauthorize the Board and was also referred to the Committee on Education and the Workforce.

Subsequent to fiscal year 2004, the Foundation negotiated cancellation of approximately \$39,000 of its liabilities with vendors. The vendors offered these balances owed as "in-kind" contributions to the Foundation.

On October 1, 2005, the Foundation appointed a new Treasurer and Audit Committee Chair. The new Treasurer is currently with the Willard Group and the new Audit Committee Chair is currently the Senior Director of Corporate Finance at McDonald's. Both positions are voluntary.

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