

May 2007

FINANCIAL AUDIT

Congressional Award
Foundation's Fiscal
Years 2006 and 2005
Financial Statements



G A O

Accountability * Integrity * Reliability

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

May 15, 2007

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, 2006 and 2005. 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, 2006, and (2) our conclusion on the Foundation's compliance in fiscal year 2006 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.

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 report. Key contributors to this report were Amy Bowser, Jennifer Henderson, Julie Phillips, Bethany Smith, and Peggy Smith.

Steven J. Sebastian
Director
Financial Management and Assurance



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

May 15, 2007

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, 2006 and 2005, 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 had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations we tested during fiscal year 2006.

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, 2006 and 2005, and the results of its activities and its cash flows for the fiscal years then ended.

As discussed in the Significant Matters section of this report and in note 13 to the financial statements, the Foundation continued to experience difficulties in meeting its financial obligations during fiscal year 2006. The Foundation's financial difficulties raise substantial doubt, for the fifth

consecutive year, about its ability to continue as a going concern.¹ The financial statements have been prepared under the assumption that the Foundation would continue as a going concern, and do not include any adjustments necessary if the Foundation were to cease operations.

Opinion on Internal Control

The Foundation maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2006. As such, the Foundation's internal control provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established in GAO's *Standards for Internal Control in the Federal Government*.²

In our previous report on the results of our audit of the Foundation's fiscal year 2005 financial statements, we discussed the continued presence of a material weakness in the Foundation's internal control over its financial reporting process. This weakness was primarily caused by the Foundation's lack of appropriate written procedures for making closing entries in its financial records and for preparing complete and accurate financial statements, as well as a lack of adequate review of the financial records by management. The lack of policies and procedures resulted in substantial adjustments to the fiscal year 2005 financial statements prior to their issuance. During fiscal year 2006, the Foundation improved its internal control over financial reporting by developing written policies and procedures for financial operations and reporting, and by implementing a review of financial records by management. Consequently, we no longer consider this issue to be a material internal control weakness.

¹GAO, *Financial Audit: Congressional Award Foundation's Fiscal Years 2002 and 2001 Financial Statements*, [GAO-03-737](#) (Washington, D.C.: May 15, 2003); *Financial Audit: Congressional Award Foundation's Fiscal Years 2003 and 2002 Financial Statements*, [GAO-05-132](#) (Washington, D.C.: Nov. 15, 2004); *Financial Audit: Congressional Award Foundation's Fiscal Years 2004 and 2003 Financial Statements*, [GAO-06-168](#) (Washington, D.C.: Nov. 4, 2005); and *Financial Audit: Congressional Award Foundation's Fiscal Years 2005 and 2004 Financial Statements*, [GAO-06-682](#) (Washington, D.C.: May 15, 2006).

²GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations for fiscal year 2006 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.

Significant Matters

During our audit of the Foundation's fiscal years 2006 and 2005 financial statements, we identified two significant matters that we believe are relevant to users and readers of the Foundation's financial statements. These matters concern (1) the Foundation's ability to continue as a going concern and (2) inconsistency between functional expenses reported in the Foundation's annual information return filed with the Internal Revenue Service (IRS) and the audited financial statements for fiscal year 2005.

The Foundation's Ability to Continue as a Going Concern

As discussed in note 13 to the financial statements, the Foundation continued to experience difficulties in meeting its financial obligations during fiscal year 2006, raising substantial doubt about the Foundation's ability to continue as a going concern. The Foundation incurred a loss (decrease in net assets) of almost \$44,000 in fiscal year 2006 as compared to a gain (increase in net assets) of about \$10,000 in fiscal year 2005. While operating revenue and other support increased in fiscal year 2006 by \$214,000, from approximately \$442,000 to \$656,000, or almost 49 percent, operating expenses also increased by 49 percent, largely because of an increase in salaries, benefits, and payroll taxes of almost \$109,000. This increase was in large part caused by the Foundation's hiring of two additional staff during fiscal year 2006, as well as a salary increase for the acting National Director. In addition, fund-raising expenses increased from approximately \$43,000 to over \$148,000 from fiscal year 2005 to fiscal year 2006.

During fiscal year 2006, two employees of the Foundation loaned funds to the organization to cover operating costs and payroll needs. To fund operating expenses during fiscal year 2006, the Foundation also sold \$15,000 worth of equity securities in January 2006. The Foundation sold an additional \$20,000 in equity securities in November 2006 to cover operating costs.

In its plan to address its financial difficulties and increase its revenues, the Foundation modified its approach to fund-raising during the past 3 years to emphasize more frequent but smaller and less expensive fund-raising events than in the past. While this initiative resulted in increased revenues for fiscal year 2006, expenses increased by an even greater amount, resulting in a net operating loss for the fiscal year.

As discussed in note 13 to the financial statements, financial data compiled by the Foundation as of February 28, 2007, indicate that the Foundation's financial condition showed some improvement during the first 5 months of fiscal year 2007. However, we have not audited these financial data. It is uncertain at this time whether this improvement can be sustained throughout the remainder of the fiscal year so that the Foundation can continue as a going concern.

Inconsistency between Information Return Filed with IRS and Audited Financial Statements

The Foundation reported a statement of functional expenses in its annual Form 990, Return of Organization Exempt from Income Tax,³ filed with IRS for fiscal year 2005 that differed significantly from functional expenses as reported in its audited financial statements for the same year.⁴ The Form 990 reported total program-related expenses of \$392,605, while the audited financial statements for the same period reported total program expenses of \$282,245—a difference of \$110,360.

Financial Accounting Standards Board Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, specifies that a statement of activities or notes to the financial statements should provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities. Information about

³IRS Form 990 is used by tax-exempt organizations to provide IRS with the information required by section 6033 of the Internal Revenue Code (I.R.C.). An organization's completed Form 990 is available for public inspection as required by section 6104 of the I.R.C. Some members of the public rely on the Form 990 as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, the return should be complete and accurate and should fully describe the organization's programs and accomplishments. Form 990 is due by the 15th day of the 5th month after the organization's fiscal year ends. An automatic 3-month extension of time to file can be requested.

⁴The Foundation filed its Form 990 for fiscal year 2005 on July 31, 2006—approximately 2-1/2 months after our report on the results of our audit of the Foundation's fiscal year 2005 and 2004 financial statements was released.

expenses by function is necessary to understand the not-for-profit organization's service efforts.

IRS requires not-for-profit organizations to show expenses by functional classification on the Form 990 information return. The instructions for Form 990 state that functional expenses should be reported using the organization's normal accounting method. Organizations should report the same functional expenses on the Form 990 as they report in their audited financial statements.

The inconsistency in the presentation of functional expenses could confuse readers of the audited financial statements and Form 990 as to the Foundation's program expenses. Readers of the audited financial statements and Form 990 may view program expenses more favorably than administrative and fund-raising expenses when making decisions regarding charitable contributions. Hence, the accuracy of the functional allocation of expenses may be an important factor to readers of both the financial statements and the Form 990 information return. The Controller informed us that the Foundation intends to file an amended Form 990 for fiscal year 2005.

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 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 and made inquiries regarding unaudited financial information for the Foundation for the first 5 months of fiscal year 2007;
- 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 with laws and regulations. Because of inherent limitations in internal control, misstatements caused by 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.

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, 2006. 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 stated that its overall financial condition has improved and it continues to work diligently to secure proper funding to adequately support the program. As of April 30, 2007, the Foundation reported it had received over \$494,000 in contributions and pledges for fiscal year 2007 and it expects to exceed budgeted revenue of \$600,000 for the fiscal year.

The complete text of the Foundation's comments is reprinted in appendix I.



Steven J. Sebastian
Director
Financial Management and Assurance

May 7, 2007

Financial Statements

Statements of Financial Position

**The Congressional Award Foundation
Statements of Financial Position
As of September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 8,561	\$ 6,743
Certificate of deposit	56,952	55,013
Contributions receivable (note 3)	51,300	45,000
Prepaid expense	2,972	2,880
Congressional Award Fellowship Trust (note 4)	38,852	58,531
Equipment, furniture, and fixtures, net	<u>5,981</u>	<u>9,804</u>
Total assets	<u>\$ 164,618</u>	<u>\$ 177,971</u>
Liabilities and net assets		
Accounts payable	\$ 11,242	\$ 15,817
Line of credit (note 5)	100,000	100,000
Accrued payroll, related taxes, and leave	17,778	9,972
Loan from National Director (note 6)	23,321	-
Contingent liability for tax penalty and interest (note 7)	<u>3,800</u>	<u>-</u>
Total liabilities	<u>156,141</u>	<u>125,789</u>
Net assets		
Unrestricted	(16,985)	23,614
Temporarily restricted (note 8)	<u>25,462</u>	<u>28,568</u>
Total net assets	<u>8,477</u>	<u>52,182</u>
Total liabilities and net assets	<u>\$ 164,618</u>	<u>\$ 177,971</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Changes in unrestricted net assets:		
Operating revenue and other support		
Contributions	\$ 359,520	\$ 217,353
Contributions - in-kind (note 9)	128,660	131,114
Program and other revenues	162,410	87,305
Interest and dividends	2,568	2,736
Net assets released from restrictions (note 8)	<u>3,106</u>	<u>3,060</u>
Total operating revenue and other support	<u>656,264</u>	<u>441,568</u>
Operating expenses (note 10)		
Salaries, benefits, and payroll taxes	312,654	203,896
Program, promotion, and travel	14,164	24,028
Fund-raising expense	148,535	42,820
Gold Award ceremony	100,083	51,522
Professional fees	47,354	71,234
Depreciation	3,823	6,044
Board of Directors expense	630	4,355
Administrative and other expense	<u>64,100</u>	<u>60,121</u>
Total operating expenses	<u>691,343</u>	<u>464,020</u>
Subtotal	(35,079)	(22,452)
Other changes		
Net unrealized investment gains (losses)	(14,343)	38,807
Net realized investment gains (losses)	<u>8,823</u>	<u>(3,279)</u>
Increase (decrease) in unrestricted net assets	(40,599)	13,076
Changes in temporarily restricted net assets:		
Net assets released from restrictions (note 8)	<u>(3,106)</u>	<u>(3,060)</u>
Decrease in temporarily restricted net assets	<u>(3,106)</u>	<u>(3,060)</u>
Increase (decrease) in net assets	(43,705)	10,016
Net assets at beginning of year	<u>52,182</u>	<u>42,166</u>
Net assets at end of year	<u>\$ 8,477</u>	<u>\$ 52,182</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (43,705)	\$ 10,016
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	3,823	6,044
Net unrealized loss (gain) on investments	14,343	(38,807)
Net realized (gain) loss on sale of investments	(8,823)	3,279
Certificate of deposit interest	(1,939)	(1,401)
Change in operating assets:		
Contributions receivable	(6,300)	15,573
Prepaid expenses	(92)	665
Change in operating liabilities:		
Accounts payable	(4,575)	(119,686)
Accrued payroll, related taxes, and leave	7,806	(47,641)
Contingent liability for tax penalty and interest	3,800	-
Obligation under capital leases	-	(462)
Net Cash Used by Operating Activities	(35,662)	(172,420)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	14,159	172,547
Net Cash Provided by Investing Activities	14,159	172,547
Cash Flows from Financing Activities		
Proceeds from loans	27,821	-
Repayment of loans	(4,500)	-
Net Cash Provided by Financing Activities	23,321	-
Net Increase in Cash and Cash Equivalents	1,818	127
Cash and Cash Equivalents, beginning of year	6,743	6,616
Cash and Cash Equivalents, end of year	\$ 8,561	\$ 6,743
Supplemental Data:		
Cash paid during the year for interest	\$ 8,727	\$ 6,619

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, 2006 and 2005

Note 1. Organization

The Congressional Award Foundation (the Foundation) was formed in 1979 under Public Law No. 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 3,400 in fiscal year 2006. During fiscal year 2006, there were approximately 22,000 participants registered in the Foundation's Award program. On December 22, 2005, the President signed Public Law No. 109-143, which reauthorized the Congressional Award Foundation through September 30, 2009.

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 and Certificate of Deposit

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 Fellowship Trust (the Trust) are not considered cash equivalents for financial statement reporting purposes.

The Foundation has a \$50,000 certificate of deposit, which is pledged as collateral on the \$100,000 line of credit (see note 5).

C. Contributions Receivable

Unconditional promises to give are recorded as revenue when the promises are made. Contributions receivable to be collected within less than 1 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. 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

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

or expense, as appropriate.

E. Congressional Award Fellowship Trust - Investments

The Trust investments consist of equity securities and money market funds, which are stated at 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.

The Foundation has no permanently restricted net assets.

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 10. 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.

Note 3. Contributions Receivable

At September 30, 2006 and 2005, promises to give totaled \$51,300 and \$45,000, respectively, none of which was temporarily restricted by the donors. All amounts were due within 1 year.

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

Note 4. Congressional Award Fellowship Trust

The Trust was established in 1990 to benefit the charitable and educational purposes of the Foundation. During the fiscal year ended September 30, 2006, the Trustees authorized the use of \$15,788 of the Trust to support fiscal year 2006 operations.

At September 30, 2006, and 2005, the Trust's investments at fair value consisted of the following:

<u>Description</u>	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Equity in securities – energy sector	\$ 36,947	\$ 58,524
Money market funds	<u>1,905</u>	<u>7</u>
Total	<u>\$ 38,852</u>	<u>\$ 58,531</u>

Activity in the Trust for the fiscal years ended September 30, 2006 and 2005, was as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 629	\$ 2,736
Net realized gains (losses)	8,823	(3,279)
Net unrealized gains (losses)	<u>(14,343)</u>	<u>38,807</u>
Total investment (losses) gains	(4,891)	38,264
New contributions to investment fund	1,000	0
Investments and earnings transferred to current operations	<u>(15,788)</u>	<u>(175,284)</u>
Net change in Trust Fund investments	(19,679)	(137,020)
Trust Fund investments, beginning of year	<u>58,531</u>	<u>195,551</u>
Trust Fund investments, end of year	<u>\$ 38,852</u>	<u>\$ 58,531</u>

Note 5. Line of Credit

The Foundation has a \$100,000 revolving line of credit with its bank that bears interest at 9.25 percent per annum. Interest paid on this line of credit during fiscal years 2006 and 2005 was \$8,727 and \$6,619, respectively. The line of credit is partially secured by the Foundation's investment in a \$50,000 certificate of deposit held by the same bank.

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

At September 30, 2006, and 2005, the outstanding balance on the line of credit was \$100,000.

Note 6. Loan from National Director

During fiscal year 2006, the National Director provided a loan to the Foundation in the amount of \$23,321, which was still owed as of September 30, 2006. By December 31, 2006, the amount had been repaid.

Note 7. Contingent Liability for Tax Penalty and Interest

The Foundation filed its annual Internal Revenue Service Form 990 information return for fiscal year 2005 in July, 2006. The Internal Revenue Service issued a letter in December, 2006, advising that the information return was filed late and that penalties and interest had accrued in the amount of \$3,580 as of January 8, 2007. On January 24, 2007, the Foundation appealed this decision. On February 23, 2007, the Internal Revenue Service advised it had not yet made a determination and was still reviewing the appeal. A contingent liability of \$3,800, including additional accrued interest, is recorded in the financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2006 and 2005 were available for the following programs and future periods:

	<u>2006</u>	<u>2005</u>
Puerto Rico Council development	\$ 17,396	\$ 17,396
Nevada Council development	8,066	10,381
Oklahoma Council development	<u>0</u>	<u>791</u>
Total net assets temporarily restricted for use	<u>\$ 25,462</u>	<u>\$ 28,568</u>

Net assets released from restrictions during the fiscal years ended September 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Puerto Rico Council development	\$ 0	\$ 166
Nevada Council development	2,315	1,901
Oklahoma Council development	<u>791</u>	<u>993</u>
Total temporarily restricted net assets released for use	<u>\$ 3,106</u>	<u>\$ 3,060</u>

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

Note 9. In-kind Contributions

During fiscal year 2006, the Foundation received in-kind (noncash) contributions from donors. Donated professional services are accounted for as contribution revenue and as current period operating expenses. During fiscal years 2006 and 2005, the Foundation employed the services of unpaid interns. However, amounts for the intern services are not included in these financial statements because the value of the services is not readily determinable.

For fiscal year 2005, in-kind contributions received also resulted from the forgiveness of debts, which were accounted for as contribution revenue. During fiscal year 2005, the Foundation negotiated cancellation of \$63,262 of its liabilities with vendors. The vendors offered these balances owed as in-kind contributions to the Foundation.

The value of the in-kind contributions recognized was \$128,660 and \$131,114 for fiscal years 2006 and 2005, respectively. These noncash contributions are as follows.

	<u>2006</u>	<u>2005</u>
Professional services:		
Legal	\$ 33,354	\$ 63,202
Web-hosting	8,680	4,650
Donations related to forgiveness of debt	0	63,262
Donations related to fund-raising	<u>86,626</u>	<u>0</u>
Total in-kind contributions	<u>\$128,660</u>	<u>\$131,114</u>

In addition, Section 106(e) of the Congressional Award Act, as amended, provides 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. 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 10. 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, 2006 and 2005. Presented below are the Foundation's expenses by functional classification for the fiscal years ended September 30, 2006 and 2005.

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Program activities	\$ 391,296	\$ 282,245
Fund-raising activities	169,276	60,375
Administrative activities	<u>130,771</u>	<u>121,400</u>
Total	<u>\$ 691,343</u>	<u>\$ 464,020</u>

Note 11. 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. There were no contributions to the plan in fiscal years 2006 and 2005.

Note 12. Related Party Activities

The Foundation engaged in numerous transactions with related parties during fiscal years 2006 and 2005.

The Controller provided a loan of \$4,500 during fiscal year 2006. This amount was repaid during the fiscal year.

The Controller, through his professional tax business, prepared the Foundation's annual Internal Revenue Service Form 990 information return. His firm was compensated \$750 and \$2,000 during fiscal years 2006 and 2005, respectively.

During fiscal years 2006 and 2005, the Foundation had an agreement with a professional fund-raiser. The professional fund-raiser's spouse is on the Board of Directors of the Foundation. During fiscal year 2005, the fund-raising commission basis was increased from 10 percent to 15 percent and remained at this rate until May 2006. At that time, the fund-raising commission was changed to a monthly retainer of \$1,500. Disbursements by the Foundation during fiscal years 2006 and 2005 to the related party totaled \$9,000 and \$12,891, respectively.

During fiscal years 2006 and 2005, a former board member served as portfolio manager with the brokerage firm responsible for managing the Congressional Award Fellowship Trust account.

During fiscal years 2006 and 2005, 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 9.

The following transactions with board members, all of which were also included in the value of in-kind contributions in note 9, took place during fiscal year 2006:

THE CONGRESSIONAL AWARD FOUNDATION
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2006 and 2005

- The Board Chairman did not request reimbursement of airfare for his attendance at statewide ceremonies, the value of which was \$578.
- A board member, through his company, provided press releases at no cost, the value of which was \$2,500.
- A board member provided for the expenses for participants to attend Mississippi ceremonies, the value of which was \$2,370.
- A board member, through his company, provided filming of the Gold Award Ceremony, the value of which was \$10,000.
- A board member, through his company, paid for a breakfast for the New Jersey delegation, the value of which was \$1,049.

Note 13. The Foundation's Ability to Continue as a Going Concern

The Congressional Award Foundation depends on contributions to fund its operations and, to a far lesser extent, other revenues, interest, and dividends. The Foundation's net assets decreased from \$52,182 in fiscal year 2005 to \$8,477 in fiscal year 2006. The decrease in net assets in fiscal year 2006 was in part caused by a donor unexpectedly withdrawing its commitment to sponsor the Gold Award Ceremony and associated 5-day long program. Since the Foundation had made financial commitments for the program, trust investments had to be sold to pay for the program activities. As a result, the Foundation's investments decreased \$19,679 in fiscal year 2006 from \$58,531 to \$38,852.

The Foundation implemented numerous initiatives to increase corporate fund-raising revenues during fiscal year 2005. As a result, the Foundation's corporate contributions increased by 65 percent and total income increased by 49 percent, about \$215,000, from fiscal year 2005 to 2006. However, total expenses also increased by 49 percent, about \$227,000, from fiscal year 2005 to fiscal year 2006. The Foundation's ability to continue as a going concern depends on increasing revenues and decreasing expenses.

The Foundation's financial condition has improved, as shown in unaudited financial statements through February 28, 2007. The financial data show approximately \$318,000 in total revenue and \$77,000 in net income for the 5 months ended February 28, 2007.

Note 14. Subsequent Events

The Foundation sold approximately \$20,000 in equity securities (part of the Congressional Award Fellowship Trust) in November 2006 in order to support fiscal year 2007 operations.

Comments from the Congressional Award Foundation



Public Law 96-114, The Congressional Award Act

Congressional Award

May 7, 2007

Mr. David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Walker:

This letter is in response to your audit report of the Congressional Award Foundation's statements of financial position as of September 30, 2006 and 2005. Specifically, this letter is to inform you of the positive changes that have occurred in regards to the overall financial condition of the Foundation.

The Congressional Award Foundation continues to work diligently to secure the proper funds to adequately support the growing program. As of April 30, 2007, the Foundation has received over \$494,000 in contributions and pledges for fiscal year 2007 and recorded a net income of over \$89,000, demonstrating significant improvement in funding over fiscal year 2006. Projections show the Foundation will not only meet, but exceed our budgeted revenue of \$600,000 for the year.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel B. Scherder', written over a horizontal line.

Daniel Scherder
Treasurer, The Congressional Award
National Board of Directors

A handwritten signature in black ink, appearing to read 'Erica W. Heysse', written over a horizontal line.

Erica Wheelan Heysse
Acting National Director
The Congressional Award

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