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Testimony

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The Congressional Award Program

Statement of
Dennis J. Duquette, Associate Director
Accounting and Financial Management Division

Before the
Subcommittee on Select Education
Committee on Education and Labor
House of Representatives



136188

C42565/136188

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to present the results of our review of the Congressional Award program which was required by Public Law 99-161. Our review was conducted during the period May 1987 through March 1988. We issued to the Congressional Award Board an opinion on the Congressional Award Foundation's financial statements on May 25, 1988. A report to the Congress on our financial audit and program evaluation is also being prepared and will be provided to the Board. We believe that our financial audit and program evaluation have resulted in findings which are particularly pertinent to the purpose of this hearing on the reauthorization of the program.

We found that, although the program seems to be operating well at the local council level, the national program level has some very serious financial and administrative problems that should be addressed. The lack of adequate Board and Foundation leadership, together with inadequate funding at the national level have been the primary causes of the program now operating in a deficit position and experiencing a slowing growth rate. The Board and the Foundation have been able to continue in operation only because in December 1987, the Congress appropriated \$189,000, which is available only to pay operating expenses. We believe that any future extensions of this program should be linked to the progress made by the Board in overcoming its serious financial and administrative problems.

BACKGROUND

The Congress established the Congressional Award program in 1979 to promote initiative, achievement, and excellence among youths through the dedication of time to public service, personal development, and physical activities. The program is managed by the Congressional Award Board which established a nonprofit corporation to carry out the program's daily operations. That corporation, the Congressional Award Foundation, serves as the national office for local and statewide councils. Until passage of an appropriation in December 1987, the program was financed entirely from private sources.

Youths aged 14 through 23 can participate in the program. Depending on their age and the amount of time they spend on qualifying activities, they can earn bronze, silver, or gold Congressional Award medals.

Most of the substantive efforts to enable youths to fulfill award requirements occur at the local level. Adult volunteers who serve as activity supervisors certify that youths have spent the hours required to qualify for a medal. Council staff, comprised almost exclusively of volunteers, confirm that youths' activities meet the program standards, verify that applications are complete, and forward them to the Foundation for approval.

Youths who do not live in areas served by a council can participate in the program by submitting their medal applications directly to the Foundation. Scholarships can also be offered to medal recipients, as provided in the authorizing legislation.

PRINCIPAL FINDINGS

Our financial audit and program evaluation identified several findings which I will briefly share with you. We found the following:

- The financial statements are fairly presented.
- Program achievements have been substantial.
- National fund-raising has been insufficient.
- The Foundation can reduce its expenses.
- Some Foundation expenses have been imprudent or improper.
- Board and Foundation management have not been effective.

- . The Board needs to provide more active participation in and oversight of the Foundation's activities.

- . The Foundation needs to manage the program more effectively and efficiently.

Financial Audit Results

The Foundation's financial statements fairly present its financial position for fiscal years 1986 and 1987, based on the assumption that the Foundation will continue in operation. In view of its financial condition and the program's authorizing legislation expiring in November 1988, there is a reasonable question as to whether the Foundation will continue in operation. We also reported two material internal control weaknesses regarding the safeguarding of assets and the reimbursement of the Director's expenses. We found general compliance with laws and regulations except that the Foundation did not comply with the statutory requirement that it not make expenditures in excess of available resources. Copies of our opinion and the reports on internal accounting controls and compliance with laws and regulations which we issued to the Foundation's Board on May 25, 1988, are attached.

Program Achievements

The program has grown from 2 councils in 1 state and 15 medal earners in 1982, to 45 councils in 22 states and 658 medal

earners in 1987. Since inception of the program, 2,065 medals have been earned, which means that at least 356,800 hours of public service have been donated by medal recipients.

We were unable to obtain statistics on total program participation because the Foundation does not track the number of individuals who are in the process of earning a medal or those who began but later dropped out of the program. Therefore, in order to obtain the views of program participants, we randomly sampled 242 medal earners and an adult supervisor associated with each of them by using a questionnaire. Over 80 percent of the youths and adults responding to our questionnaire indicated they were satisfied with the program and almost all of them said they would recommend it to others. About 66 percent of the youths who earned bronze and silver medals stated they were working towards the next higher medal or planned to do so. Seventy-five youths have already earned more than one medal.

Most of the responding youths believed the hours required to earn medals were reasonable. From questionnaire responses and from our review of medal applications, we determined that most activity supervisors observe the youths' activities that qualify them for medals and that the councils do a good job of ensuring that program standards are met.

We also identified two areas where action by the Foundation could result in future program expansion. The first is that program promotion and publicity appears limited. In our discussion with youths and from information gathered from our questionnaires, we learned that the program is not well known--even in areas with active councils. Second, the authorizing legislation contains a provision for awarding scholarships, but this aspect of the program has not been formally implemented. Although the Foundation's fund balance has been in a deficit position for the last 4 years, we believe funds could have been set aside for scholarships by changing spending priorities. Awarding scholarships to youths who have donated their time and efforts to community and self-improvement would seem to offer an attractive potential for expanding participation in the program, obtaining needed program publicity, and encouraging private sector contributions to the program.

Fund-raising

The Foundation is in a perilous financial condition for several reasons. These include:

- Contributions have fallen from \$907,000 in 1984, to \$204,000 in 1987, with no new contributions during the first 5 months of 1988.

- About 84 percent of the 1987 contributions came from Board members, and over 90 percent of those Board contributions came from one member who recently resigned from the Board.
- In 1987, the Foundation's expenses exceeded revenue by \$165,689, resulting in a cumulative deficit of \$322,995.
- An appropriation of \$189,000 had to be obtained in order to keep the program operating.
- The Board has not successfully addressed financial problems.

Foundation staff said contribution shortfalls existed because 3-year pledges were expiring, foreign donations had declined, and U.S. companies preferred to donate locally rather than for headquarters operations.

In July 1986, a fund-raising consultant was hired on a commission basis to obtain contributions. After 14 months of sending letters and making calls to numerous large companies, only \$42,260 was raised, including \$23,250 from Board members. The fund-raiser tendered a resignation letter, but the Board authorized rehiring the fund-raiser at an hourly wage of \$31.25. This decision resulted in paying the fund-raiser \$5,500 in wages

over a period of time during which no private sector contributions were raised.

To identify an alternative method of raising funds, we studied a nonprofit corporation that operates a program for youths. It has been very successful in obtaining contributions by using a well-structured fund-raising approach. It has established substantial, continuing support from many contributors who provide moderate sums. In contrast, the Foundation depends heavily on substantial sums from relatively few benefactors. Also, Congressional Award program officials do not keep donors abreast of current accomplishments, whereas the other program sends information to its contributors and has participating youths write to thank them for their contributions.

Foundation Expenses

When the Congress passed Public Law 99-161 to reauthorize the program in 1985, it expressed concern about the lack of fiscal responsibility and amended the authorizing legislation to address this concern. For example, the 1985 amendments required the Board's annual report to contain detailed information on its administrative expenses and its bylaws to include appropriate fiscal control and funds accountability principles to ensure compliance with certain statutory requirements. Nevertheless, Foundation expenses we reviewed were not adequately controlled

because the Board, through its Treasurer, has not fully carried out its responsibility to monitor and approve expenditures in accordance with the Foundation's bylaws. The lack of monitoring led to noncompliance with a legislative requirement which prohibits deficit spending and to the expenditure of funds that were either improper or imprudent. Examples of such expenses include payments for parking violations and certain entertainment expenses.

Reduction of Expenses

The Foundation has taken some actions to reduce expenses. The Foundation Director has sublet some of the Foundation's leased office space and has also sold excess office furniture. In addition, two Foundation staff members (field service representatives) were released. This latter action, although reducing annual salary costs by \$80,700, substantially reduced the Foundation's capability to work with existing councils or to help start new ones. The salary of another staff member was proposed for reduction, but no action has been taken by the Board.

We believe there are several other opportunities which have the potential to reduce the Foundation's operating costs. They include:

- Pursuing an offer by a Board member to use rent-free office space, and re-evaluating the necessity of continuing to rent storage space. The annual lease costs now approximate \$25,700.
- Selling the Foundation's car unless it can be shown to be cost-effective to keep it. Based on a review of automobile operating costs for 1986 and 1987, the Foundation's ownership of a car did not appear to be cost effective.
- Discontinuing the current arrangement with the fund-raising consultant unless her efforts produce sizable contributions.
- Evaluating whether the office manager and word processor positions, which together cost \$44,000 annually, could be merged at a reduced cost. Based on our observations and a review of the duties performed, we believe one person could perform the duties of these two positions.
- Seeking disposition of the \$300,000 debt owed to a former Board member. Alternatives include forgiveness of the debt, reducing interest charges, and/or renegotiating due dates.

Board and Foundation Management

Substantial management initiatives by the Board and the Foundation are necessary to place the Congressional Award program on solid footing. Many of the 33 Board positions have been vacant for extended periods. For example, as of March 31, 1988, 11 Board positions were vacant. Furthermore, the Board has had a quorum at only one of its 22 meetings since 1980. Our review of available Board minutes, attendance at Board meetings, and discussions with Board members revealed that the Board frequently addressed the same problems without developing either short or long-term solutions and that members did not follow up on previous agreements. For example, the problem of inadequate contributions has been discussed at several meetings; however, no corrective action has been taken. Board committees, such as the Finance Committee, which could have made major contributions to solve existing problems were either not actively involved or did not carry through on their duties.

The Foundation's role has not been clearly defined by either the Board or the Foundation. The Foundation does certain things that the Councils could do for themselves, such as ordering medals. On the other hand, it has done very little to publicize the program or establish scholarship guidelines. Some council officials have stated that they could operate without the Foundation, which they say has little effect on their operations.

We believe that this perception is a reflection of the fact that the Foundation has not maintained meaningful interaction with the councils following their establishment.

In our draft report we are directing several proposals to the Board's Chairman. These specify several actions to ensure active participation and oversight by the Board and more efficient management within the Foundation.

Mr. Chairman, this concludes my formal statement. At this time, I would be pleased to answer any questions you may have.



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-229163

To the Board of Directors
Congressional Award Foundation

We have examined the statement of financial position of the Congressional Award Foundation as of December 31, 1987 and 1986, the related statements of revenue and expenses and changes in fund balance, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this report on our examination of the Foundation's 1987 and 1986 financial statements, we are also reporting on our study and evaluation of internal accounting controls and compliance with laws and regulations.

In our opinion, the financial statements referred to above present fairly the financial position of the Congressional Award Foundation as of December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

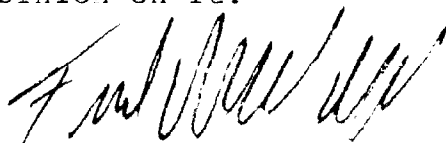
The accompanying financial statements have been prepared based on the assumption that the Foundation will continue as a going concern. As shown in note 2 to the financial statements, the Foundation has suffered losses from operations in 3 of the last 4 years. Its revenue from contributions decreased from \$907,225 in 1984 to \$204,379 in 1987. As of December 31, 1987, the Foundation had a net deficit of \$322,995. It has not raised any funds during the first 4 months of 1988. The Foundation is operating solely on an appropriation of \$189,000.

These facts raise substantial doubt concerning the entity's ability to continue as a going concern. The financial statements, however, do not include any adjustments that might result from the outcome of this uncertainty. It

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should also be noted that the authorizing legislation for the Congressional Award Program expires on November 16, 1988.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We did not examine other financial information which the Foundation prepared for purposes of complying with the law and which is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on it.



Frederick D. Wolf
Director

March 31, 1988



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

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To the Board of Directors
Congressional Award Foundation

We have examined the financial statements of the Congressional Award Foundation for the years ended December 31, 1987 and 1986, and have issued our opinion thereon. As part of our examinations, we made a preliminary study and evaluation of the system of internal accounting controls, as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended December 31, 1987.

The purpose of our study and evaluation was to determine the nature, timing, and extent of auditing procedures necessary for expressing an opinion on the Foundation's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- payroll,
- revenue,
- expenditures, and
- equipment.

Because financial records were maintained entirely by one individual, there was an inadequate separation of duties. Therefore, we chose not to rely on the system of internal accounting controls, and accordingly, we did not test and evaluate them. Instead, we expanded our substantive audit tests to determine the reasonableness of reported account balances.

The management of the Foundation is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility,

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estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance may deteriorate.

Our preliminary study of internal accounting controls disclosed the following two conditions that could result in errors or irregularities in amounts material to future financial statements, which may not be detected within a timely period.

APPROVAL OF EXPENDITURES

Sound internal control procedures require that reimbursement of expenses be approved by an individual independent of the person incurring the expenditure. The Foundation's Director routinely approved reimbursements of her own expenses without prior review or approval by the Congressional Award Board. These expenses, which totalled approximately \$10,000 during 1987, were not reviewed or approved even though some funds were spent on activities which, in our opinion, did not clearly further the Foundation's mission. An appropriate control procedure would require the approval by a Congressional Award Board member of all expenditures to be reimbursed to the Director.

The issue of approval of expenditures has been addressed with respect to the expenditure of \$189,000 in funds appropriated from Public Law 100-202, December 22, 1987, to the Congressional Award Program. These funds can only be disbursed upon receipt of vouchers approved by the Chairman of the Congressional Award Board or a designee.

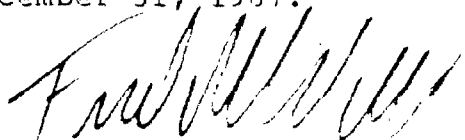
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SAFEGUARDING ASSETS

The Foundation has not adequately safeguarded its physical assets. It does not maintain a record or an inventory of its office furniture and equipment, which had an original cost of about \$84,200. Such records should contain property identification or serial numbers and physical locations of items owned. This condition was reported to the Foundation, and we furnished a list of serial numbers for the equipment in an attempt to assist the Foundation with its recordkeeping.

Our preliminary review of internal controls did not disclose any other conditions that materially affected our opinion on the statement of financial position.

To compensate for the weakness in the internal accounting controls, we used substantive audit tests to verify financial statement amounts. Therefore, the weaknesses reported above, while material, did not affect our opinion on the Foundation's financial statements for the year ended December 31, 1987.



Frederick D. Wolf
Director

March 31, 1988



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-229163

To the Board of Directors
Congressional Award Foundation

We have examined the financial statements of the Congressional Award Foundation for the years ended December 31, 1987 and 1986, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of compliance with laws and regulations as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1987.

In our opinion, the Foundation, except for the matter discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

The Foundation has not complied with the provision in the Congressional Award Act which requires that expenditures be made only with available resources. Because there were insufficient resources to meet its needs, the Foundation borrowed funds to cover operating expenditures, and this borrowed money remains outstanding. Currently, the Foundation is unable to pay all its bills, and the fund is in a deficit position.

During the course of our examination, we also identified other instances of noncompliance that we did not consider to be material to the financial statements. Nonetheless, they merit corrective action, and we are reporting them separately to the Congress.

A handwritten signature in black ink, appearing to read "Frederick D. Wolf".

Frederick D. Wolf
Director

March 31, 1988

FINANCIAL STATEMENTSStatement of Financial Position

AS OF DECEMBER 31, 1987 AND 1986

<u>ASSETS</u>	<u>1987</u>	<u>1986</u>
Cash	\$ 8,371	\$ 51,782
Accounts Receivable	4,048	0
Pledges Receivables (note 4)	10,000	22,000
Prepaid Expenses	3,393	4,742
Deposits	4,302	4,302
Office Furniture and Equipment (note 3)	\$84,226	\$84,226
Less Accumulated Depreciation	<u>74,393</u>	<u>60,263</u>
	9,833	23,96
TOTAL ASSETS	<u>\$ 39,947</u>	<u>\$106,789</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Accounts Payable	\$ 37,278	\$ 14,600
Accrued Payroll and Related Taxes	10,944	11,567
Notes Payable (note 5)	300,000	215,000
Deferred Revenue (note 4)	10,000	22,000
Other	<u>4,241</u>	<u>478</u>
TOTAL LIABILITIES	<u>362,463</u>	<u>263,647</u>
Restricted Scholarship Fund	479	448
Fund Deficit	(322,995)	(157,306)
TOTAL FUND BALANCE	<u>(322,516)</u>	<u>(156,858)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 39,947</u>	<u>\$106,789</u>

The accompanying notes are an integral part of these statements.

Statement of Revenue and Expenses and Changes in Fund Balance

FOR THE YEARS ENDED DECEMBER 31, 1987 AND 1986

<u>REVENUE</u>	<u>1987</u>	<u>1986</u>
Contributions	\$ 204,379	\$ 430,358
Interest Income	2,330	1,409
Medals - Certificates	30,447	0
Others	<u>0</u>	<u>553</u>
TOTAL REVENUE	<u>237,156</u>	<u>432,320</u>
<u>EXPENSES</u>		
Salaries	182,772	185,168
Employee Benefits	28,999	55,855
Professional Fees	32,816	49,490
Program Services	46,504	1,865
Promotion	0	14,118
Travel and Entertainment	13,891	16,111
Office Expense	60,951	67,403
Interest	22,781	11,439
Depreciation	14,131	14,933
Award Ceremony	<u>0</u>	<u>2,129</u>
TOTAL EXPENSES	<u>402,845</u>	<u>418,511</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	(165,689)	13,809
Fund balance at beginning of year	(<u>157,306</u>)	(<u>171,115</u>)
FUND BALANCE AT END OF YEAR	\$(<u>322,995</u>)	\$(<u>157,306</u>)

The accompanying notes are an integral part of these statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1987 AND 1986

<u>FUNDS PROVIDED</u>	<u>1987</u>	<u>1986</u>
Net income from operations	\$ 0	\$ 13,809
Decrease in pledges receivable	12,000	197,000
Decrease in prepaid expenses	1,349	739
Increase in accounts payable	22,676	0
Increase in notes payable	85,000	212,290
Increase in other liabilities	3,762	0
Decrease in travel advances	0	1,660
Depreciation	<u>14,131</u>	<u>14,933</u>
TOTAL FUNDS PROVIDED	<u>138,918</u>	<u>440,431</u>
<u>FUNDS APPLIED</u>		
Net loss from operations	165,689	0
Increase in accounts receivable	4,048	0
Decrease in accounts payable	0	146,927
Decrease in accrued payroll	623	4,000
Decrease in deferred revenue	11,969	197,552
Decrease in other liabilities	0	4,512
Cost of employee separation	<u>0</u>	<u>36,923</u>
TOTAL FUNDS APPLIED	<u>182,329</u>	<u>389,914</u>
INCREASE (DECREASE) IN CASH	<u>\$ (43,411)</u>	<u>\$ 50,517</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statement

FOR THE YEARS ENDED DECEMBER 31, 1987 AND 1986

Note 1. Organization

The Congressional Award Foundation was formed in 1979, under Public Law 96-114, and is a private, nonprofit, tax-exempt organization established to promote initiative, achievement, and excellence among youth in areas of public service, personal development, and physical and expedition fitness.

The Foundation has 45 congressional district and state councils nationwide. These councils receive program assistance, but they are financially independent of the Foundation.

Note 2. Continued Existence

The following factors impact on the Foundation's continued existence:

a. Loss of key contributor - One Board member who contributed 80 percent of funds received in 1987 has subsequently resigned.

b. Deficit Trend - The Foundation has ended each of the last 4 years with a fund deficit, due primarily to a decrease in private sector contributions. During this period, the Foundation's fund balance has decreased and it has experienced operating losses in 3 of these years, as shown in the following table.

<u>For the Years Ended December 31</u>	<u>Amount of Private Sector Contributions</u>	<u>Net Income or (Loss)</u>
1984	\$907,225	\$(114,223)
1985	794,135	(145,836)
1986	430,358	13,809
1987	204,379	(165,689)

c. Congress appropriated \$189,000 in December 1987. These funds are intended to keep the program in operation with the expectation that the Foundation will raise additional private funds and cut costs where feasible.

d. Authorizing legislation provides for the program to terminate on November 16, 1988, unless reauthorized as it was in 1985. Reauthorization hearings are planned for 1988. At that time Congress will determine the future direction of the program.

Note 3. Significant Accounting Policies

The financial statements are prepared on the accrual basis of accounting.

Office furniture and equipment is stated on the basis of cost. Depreciation is computed by the straight-line method, using estimated useful lives of 3 and 5 years.

The scholarship grant was designated by the donor for a specific purpose and constitutes restricted funds. Contributions made to benefit a future period are deferred and recorded as revenue in the period specified by the donor.

Note 4. Deferred Revenue

Deferred revenue consists of the following:

	December 31,	
	<u>1987</u>	<u>1986</u>
Hoare Govett, Inc. - \$20,000		
(\$10,000 to be available in 1987,		
and \$10,000 in 1988)	\$10,000	\$20,000
Slough Parks, Inc. - \$2,000		
(All available in 1987)	<u>0</u>	<u>2,000</u>
	<u>\$10,000</u>	<u>\$22,000</u>

Note 5. Notes Payable

Notes payable consist of the following:

	December 31,	
	<u>1987</u>	<u>1986</u>
Balance of \$250,000 line of credit,		
8.25 percent interest, due on demand.	\$250,000	\$165,000
Demand note, 9 percent interest.	<u>50,000</u>	<u>50,000</u>
	<u>\$300,000</u>	<u>\$215,000</u>

Note 6. Employee Benefit Plan

The Foundation has a defined contribution pension plan for the benefit of its employees. The plan requires that the Foundation make an annual contribution to the plan based upon the compensation of eligible plan participants.

The contribution to the pension plan amounted to \$16,849 and \$19,808 for the years ended December 31, 1987 and 1986, respectively.

Note 7. Lease

The Foundation leases office facilities under a non-cancellable operating lease for a 5-year term expiring August 31, 1988. Rent expense for the years ended December 31, 1987 and 1986, amounted to \$24,751 and \$24,095, respectively. The future minimum lease payment for 1988 is \$16,967.

Note 8. Related Party Transactions

During 1987, the Foundation paid \$165 to an employee's family member for delivery services.

During 1986, the Foundation borrowed \$50,000, to be paid on a demand note bearing interest at 9 percent per annum, from a former Board member who also is the guarantor on the \$250,000 line of credit.

Note 9. Administrative Expenses

Administrative expenses amounted to 41 percent of all expenses in 1987 and 1986, as detailed below:

	<u>1987</u>	<u>1986</u>
Salaries	\$75,124	\$79,496
Employee Benefits	13,787	28,983
Professional Fees	3,621	6,978
Program Services	0	1,865
Travel and Entertainment	7,965	1,886
Office Expenses	28,635	24,097
Interest	22,781	11,439
Depreciation	<u>14,132</u>	<u>14,933</u>
Total Administrative Expenses	<u>\$166,045</u>	<u>\$169,677</u>