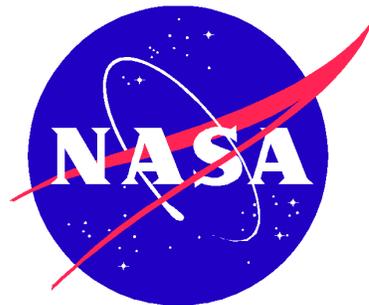


**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION'S EXCHANGE COUNCIL
AUDIT REPORT
SEPTEMBER 30, 2002**



**Headquarters
Exchange
Council**

**ALLMOND & COMPANY
Certified Public Accountants
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Landover, Maryland 20785
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**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION'S EXCHANGE COUNCIL
AUDIT REPORT
SEPTEMBER 30, 2002**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
National Aeronautics and Space Administration Exchange Council

We audited the accompanying balance sheet of the National Aeronautics and Space Administration (NASA) Exchange Council as of September 30, 2002, and the related statements of activities, changes in net position, and statements of cash flow for the year then ended (the principal financial statements). These financial statements are the responsibility of NASA Exchange Council management and were prepared by NASA Exchange Council in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, as amended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the principal financial statements referred to above present fairly, in all material respects, the financial position of NASA Exchange Council as of September 30, 2002, and its results of operation, changes in net position, and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States.

We issued a draft of this report to NASA Exchange Council management and requested its comments. Management replied by indicating its general agreement with the audit results. In accordance with *Government Auditing Standards*, we issued separate reports dated December 15, 2002, on NASA Exchange Council's internal control and compliance with laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accord with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read together with this report.

ALLMOND & COMPANY

Marvin C. Allmond, CPA

December 15, 2002
Landover, Maryland

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

The Board of Directors
National Aeronautics and Space Administration Exchange Council

We audited the accompanying balance sheet of the National Aeronautics and Space Administration (NASA) Exchange Council as of September 30, 2002, and the related statements of activities, changes in net position, and cash flow for the year then ended (the principal financial statements) and issued our report thereon, dated December 15, 2002. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered NASA Exchange Council's internal control over financial reporting by obtaining an understanding of NASA Exchange Council's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the principal financial statements. We limited internal control testing to that necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as the internal control relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not express an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect NASA Exchange Council's ability to record, process, summarize, and report financial data consistent with assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no conditions involving internal control and its operation that we consider reportable conditions. We will communicate other non-reportable conditions to NASA Exchange Council in a separate management letter.

STATUS OF PRIOR-YEAR RECOMMENDATIONS

In the FY 2001 report on internal control, the Auditors described one reportable condition – inappropriate segregation of duties exists regarding the safeguarding of cash. Our review of follow up actions revealed that NASA Exchange Council separated the duties of collecting and depositing funds from those of recording deposits in the accounting records and the duties of authorizing and disbursing funds from recording disbursements in the accounting record. However, NASA Exchange Council continues to have the same individual preparing and completing bank reconciliations and disbursing funds. Management officials stated that this problem would soon be resolved with the appointment of an assistant treasurer. The assistant treasurer will perform one of the functions

We issued a draft of this report to NASA Exchange Council management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information of NASA Exchange Council management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

ALLMOND & COMPANY

Marvin C. Allmond, CPA

December 15, 2002
Landover, Maryland

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Director
National Aeronautics and Space Administration Exchange Council

We audited the accompanying balance sheet of the National Aeronautics and Space Administration (NASA) Exchange Council as of September 30, 2002, and the related statements of activities, changes in net position, and cash flow for the year then ended (the principal financial statements) and issued our report thereon, dated December 15, 2002.

We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

NASA Exchange Council management is responsible for complying with laws and regulations. As part of obtaining reasonable assurance about whether the NASA Exchange Council's financial statements are free of material misstatement, we performed tests of its compliance with:

- Certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
- Certain other laws and regulations specified in OMB Bulletin No. 01-02.
- Requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to NASA Exchange Council. Our audit was not designed to provide an opinion on compliance with provisions of laws and regulations. Accordingly, we do not express such an opinion.

Our tests disclosed no instances of material noncompliance required to be reported under *Government Auditing Standards*. Additionally, we did not note any instances of immaterial noncompliance.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed the procedures specified in OMB's January 4, 2001, FFMIA implementation guidance. The results of our tests disclosed that NASA Exchange Council's financial management systems substantially complied with the three requirements in this paragraph.

We issued a draft of this report to NASA Exchange Council management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information of NASA Exchange Council management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

ALLMOND & COMPANY

Marvin C. Allmond, CPA

December 15, 2002
Landover, Maryland

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL**

**Fiscal Year 2002
Financial Statements**

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Balance Sheet
As of September 30, 2002**

	<u>2002</u>	<u>2001</u>
Entity Assets:		
Intragovernmental Assets:		
Cash – Checking (Note 2)	\$ 20,417	\$ 25,188
Cash – Savings (Note 2)	9,096	0
Cash – Certificate of Deposit (Note 2)	10,909	10,540
Inventory	<u>16,581</u>	<u>28,635</u>
Total Entity Assets	<u>\$ 57,003</u>	<u>\$ 64,363</u>
Liabilities:		
Liabilities	\$ 0	\$ 0
Net Position:		
Unexpended Appropriations (Note 1)	0	0
Cumulative Results of Operations	<u>57,003</u>	<u>64,363</u>
Total Net Position	<u>57,003</u>	<u>64,363</u>
Total Liabilities and Net Position	<u>\$ 57,003</u>	<u>\$ 64,363</u>

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Statement of Activities
For the Years Ended September 30, 2002**

	<u>2002</u>	<u>2001</u>
Sales Revenues:		
Store Revenue	\$ 193,872	\$ 207,903
Conference Revenue	10,000	0
Golf Event Revenue	6,865	0
Book Fair Revenue	1,042	0
	211,779	207,903
Cost of Goods Sold:		
Beginning Inventory (10-01-01)	28,635	0
Purchases	100,044	0
	128,679	0
Ending Inventory (9-30-02)	16,581	0
	112,098	89,175
Gross Profit on Sales	99,681	118,728
Operating and Administrative Expenses		
Employee Wages and Payroll Taxes	51,797	51,398
Store Services	5,123	30,322
Fully and Partially Sponsored Events	30,514	24,448
Representational Facility	12,100	11,783
Administrative Support	2,275	4,902
	101,809	122,853
Other Income		
Interest Income	420	115
Other Income	634	0
	1,054	115
Increase (Decrease) in Net Position	\$ (1,074)	\$ (4,010)

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Statement of Changes in Net Position
For the Years Ended September 30, 2002**

	<u>2002</u>	<u>2001</u>
Decrease in Net Position from Operations	\$ (1,074)	\$ (4,010)
Cumulative Results of Operation from Non-appropriations Funds (10-01-01)	64,363	68,373
Prior Period Adjustments	<u>6,286</u>	<u>0</u>
Cumulative Results of Operations (9-30-02)	<u>57,003</u>	<u>64,363</u>
Unexpended Appropriations (10-01-01)	0	0
Increase (Decrease) in Unexpended Appropriations	<u>0</u>	<u>0</u>
Net Position - End of Period	<u>57,003</u>	<u>64,363</u>

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Statement of Cash Flow
For the Years Ended September 30, 2002**

	<u>2002</u>	<u>2001</u>
Cash Flows from Operating Activities:		
Decrease in Net Position from Operations	\$ (1,074)	\$ (4,010)
Prior Period Adjustments	<u>5,768</u>	<u>0</u>
Cash Flows from Operating Activities	<u>\$ 4,694</u>	<u>\$ (4,010)</u>
Cash Flows from Investing Activities:		
Cash Flows from Investing Activities	<u>\$ 0</u>	<u>\$ 0</u>
Cash Flows from Financing Activities:		
Cash Flows from Financing Activities	<u>\$ 0</u>	<u>\$ 0</u>
Increase (Decrease) in Cash	4,694	(4,010)
Beginning Cash Balances (10-01-01)	35,728	39,738
Ending Cash Balances (9-30-02)	<u><u>\$ 40,422</u></u>	<u><u>\$ 35,728</u></u>

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL**
Notes to the Financial Statements
September 30, 2002

Note 1: Summary of Significant Accounting Policies

Description of Reporting Entity

The National Aeronautics and Space Administration (NASA) Exchange Council is a NASA employee volunteer organization. NASA's Director for Headquarters Operations established the organization. Its main mission is to introduce and encourage activities that contribute to the quality of life, well-being, and morale of NASA Headquarters personnel. The NASA Exchange Council is responsible for supervising and directing the retail store that generate revenues, which in turn allows the organization to offer social events for NASA employees. The organization reports to NASA's Director of Headquarters Operations. As an instrumentality of the United States, the NASA Exchange Council is entitled to all privileges, rights, and immunities of a government instrumentality.

NASA Exchange Council's primary source of revenue is non-appropriated funds generated from retail store operations and event ticket sales. Its strategies are to come up with goods that consumers will purchase from the retail store and events that consumers would want to attend. On limited occasions, the NASA Exchange Council would request, on a one-time basis, appropriated funds for the purchase of large equipment or expertise consultants.

These financial statements include all activity related to NASA Exchange Council's non-appropriated funds, the principal funds for all NASA Exchange Council activities.

Budgets and Budgetary Accounting

NASA Exchange Council's Board of Directors annually adopts a budget for non-appropriated funds that provide the Council with authority to use funds from its cash accounts at the NASA Federal Credit Union to meet operating and program expense requirements.

Basis of Accounting

NASA Exchange Council's financial statements are prepared under the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. NASA Exchange Council does not use budgetary accounting because non-appropriated funds are not subject to legal constraints and it can keep track of its budget authority without making accounting entries.

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Notes to the Financial Statements
September 30, 2002**

Note 1: Summary of Significant Accounting Policies (Continued)

On October 19, 1999, the American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for Federal government entities under rule 203 of the AICPA's Code of Professional Conduct. Under Rule 203, an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles, or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. Therefore, in accordance with Rule 203 of the AICPA's Code of Professional Conduct, the NASA Exchange Council prepares its financial statements to be in conformity with general accepted accounting principles.

Therefore, the following hierarchy was used to prepare these financial statements:

1. Individual Statements of Federal Financial Accounting Standards (SFFAS) agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.
2. Interpretations related to the SFFAS's issued by OMB in accordance with the procedures outlined in OMB Circular A-134 "Financial Accounting Principles and Standards."
3. The form and content requirements included in OMB Bulletin 97-01, "Form and Content of Agency Financial Statements" as amended.
4. Accounting principles published by other authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of these financial statements.

The Balance Sheet, Statement of Activities, Statement of Net Position, and Statement of Cash Flow have been prepared in accordance with the above hierarchy.

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Notes to the Financial Statements
September 30, 2002**

Note 1: Summary of Significant Accounting Policies (Continued)

Cash Balances

NASA Exchange Council maintains its cash in commercial bank accounts. Cash receipts and disbursements are processed through this commercial bank and not by the U.S. Treasury. The balance of funds with the commercial bank represents non-appropriated fund balances that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services that have not been received.

Inventory

Inventories are stated at the historical cost and are comprised of clothing and other materials that are held for sale in the NASA Exchange Council's retail store. The Council uses a perpetual inventory system during the year in accounting for inventory value; however, a physical inventory count is taken at year-end to reconcile inventory balances. In valuing its inventory, the Council uses the specific identification methodology. As a result, each item in the ending inventory is identified with a specific purchase.

Net Position

Non-appropriated funds are the primary resources of the Council. Therefore, the net position is not comprised of appropriated fund balances for (1) unexpended appropriated capital, (2) invested capital, and (3) future funding requirements.

Tax Status

NASA Exchange Council, as a government employee organization, is not subject to federal, state, or local income taxes, and accordingly, no provision for income tax is recorded.

**NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION EXCHANGE COUNCIL
Notes to the Financial Statements
September 30, 2002**

Note 2: Cash and Cash Equivalent

Cash and cash equivalent with the commercial bank were entirely entity assets from non-appropriated funds and consisted of the following:

	<u>FY 2002</u>	<u>FY 2001</u>
Cash – Conference Checking	\$ 10,296	\$ 0
Cash – Golf Checking	6,635	0
Cash – Store Checking	<u>3,486</u>	<u>0</u>
Cash – Checking	<u>\$ 20,417</u>	<u>\$ 25,188</u>
Cash – Conference Savings	\$ 301	\$ 0
Cash – Golf Savings	5	0
Cash – Store Savings	<u>8,790</u>	<u>0</u>
Cash – Savings	<u>\$ 9,096</u>	<u>\$ 0</u>
Cash – Certificate of Deposit	<u>\$ 10,909</u>	<u>\$ 10,540</u>
Cash – Certificate of Deposit	<u>\$ 40,422</u>	<u>\$ 35,728</u>

Note 3: Comparable Financial Statement Information for FY 2001

The prior year audited financial statements were less detailed than the FY 2002 financial statements. In an effort to display comparable statements, totals were allocated to one detail account and “0” was inserted in all other detail accounts making up totals reported in FY 2001 financial statements. Two examples are cash and revenues.