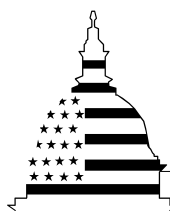


May 2003

FINANCIAL AUDIT

Congressional Award Foundation's Fiscal Years 2002 and 2001 Financial Statements



G A O

Accountability ★ Integrity ★ Reliability

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

May 15, 2003

To the President of the Senate and 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, 2002, and 2001. 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, 2002, and (2) our conclusion on the Foundation's compliance in fiscal year 2002 with selected provisions of laws and regulations we tested. We conducted our audit pursuant to section 8 of the Congressional Award Act, as amended (2 U.S.C. 807), and in accordance with U.S. generally accepted government auditing standards.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9406 or Julie Phillips, Assistant Director, at (202) 512-5121. You can also reach us by e-mail at franzelj@gao.gov or phillipsjt@gao.gov. Key contributors to this report were Greg Ziombra and Teresa Broadie-Gardner.

Jeanette M. Franzel
Director
Financial Management and Assurance



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

To the President of the Senate and 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, 2002, and 2001, 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 the provisions of laws and regulations we tested.

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

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Foundation's financial position as of September 30, 2002, and 2001, and the results of its activities and its cash flows for the fiscal years then ended.

As discussed in a later section of this report and in Note 11 to the financial statements, the Foundation is experiencing increasing difficulties in meeting its financial obligations. The Foundation's continuing financial difficulties and deteriorating financial condition raise substantial doubt about its ability to continue as a going concern. The financial statements have been prepared under the assumption that the Foundation will continue as a going concern, and do not include any adjustments that might need to be made if the operations of the Foundation were to cease.

Opinion on Internal Control

The Foundation maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2002, that 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 our *Standards for Internal Control in the Federal Government*.¹ We found matters involving internal control that we do not consider to be reportable conditions.² We will communicate these matters separately to the Foundation's management along with our suggestions for improvement.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations for fiscal year 2002 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.

Foundation's Ability to Continue as a Going Concern

The Foundation incurred losses (decreases in net assets) of \$330,726 and \$443,962 in 2002 and 2001, respectively. The decreases in net assets were a result of operating losses and unrealized losses in the value of the Foundation's investments in the Congressional Award Trust.

Due to ongoing cash flow problems associated with its daily operations, Foundation management liquidated \$130,000 of investments from the Foundation's permanently restricted trust assets and used the proceeds to cover operating expenses during fiscal year 2002. The market value of the Trust assets at September 30, 2002, was \$164,612, which was \$99,845 below the permanently restricted amount of \$264,457 as defined by the terms of

¹*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

²Reportable 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 an organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

the Trust Declaration (agreement).³ Also, as a result of its ongoing cash flow problems, the Foundation's accounts payable balance increased by approximately 600 percent from \$39,068 at September 30, 2001, to \$274,661 at September 30, 2002. During fiscal year 2002, the Foundation also borrowed the maximum amount allowable of \$100,000 against its line of credit, which remained outstanding at September 30, 2002.

At September 30, 2002, over half of the Foundation's assets, or \$360,013, consisted of contributions receivable from donors. The majority of the contributions receivable was restricted for future periods. As a result of these restrictions on its contributions receivable, its decreases in assets, and increases in liabilities, the Foundation showed a deficit in its unrestricted operating assets of \$408,537 at September 30, 2002.

Note 11 to the financial statements acknowledges the Foundation's increasing difficulties in meeting its financial obligations. While the Foundation is taking steps to decrease its expenditures, those steps may not be sufficient to allow it to continue operations. Unaudited financial data compiled by the Foundation as of March 31, 2003, showed that the Foundation's financial condition has not improved, thus raising substantial doubt about the Foundation's ability to continue as a going concern. The financial statements have been prepared under the assumption that the Foundation will continue as a going concern, and do not include any adjustments that might need to be made if the operations of the Foundation were to cease.

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

³At the time the distributions were made, they were made from Trust Fund income as defined by the Trust agreement and did not use permanently restricted amounts. The balance of the Trust Fund dropped below the permanently restricted amount due to adverse market conditions.

-
- 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; and
- 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;
- obtained an understanding of the internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;
- tested relevant internal control over financial reporting and compliance and evaluated the design and operating effectiveness of internal control; and
- tested compliance with selected provisions of the Congressional Award Act, as amended.

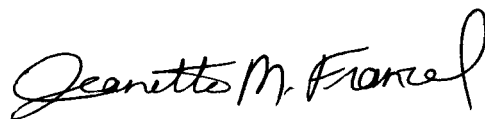
We did not evaluate internal controls relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting the results of our tests of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the Foundation. We limited our tests of compliance to those provisions of laws and regulations that we deemed to have a direct and material effect on the financial statements for the fiscal year ended September 30, 2002. 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

We provided a draft of our report to Congressional Award Foundation officials for their review and comment. Foundation officials agreed with the contents of our report.



Jeanette M. Franzel
Director
Financial Management and Assurance

April 25, 2003

Financial Statements

Statements of Financial Position

**The Congressional Award Foundation
Statements of Financial Position
As of September 30, 2002, and 2001**

	<u>2002</u>	<u>2001</u>
Assets		
Cash and cash equivalents	\$14,448	(\$7,629)
Investments (note 8)	50,000	
Contributions receivable, net (note 3)	360,013	205,000
Prepaid expense	2,534	4,441
Congressional Award Fellowship Trust (note 4)	164,612	356,934
Equipment, furniture, and fixtures, net	<u>49,222</u>	<u>65,245</u>
Total assets	<u>\$640,829</u>	<u>\$623,991</u>
Liabilities and net assets		
Accounts payable	274,661	39,068
Line of credit (note 8)	100,000	
Accrued payroll, related taxes, and leave	47,311	31,721
Obligation under capital lease	<u>2,745</u>	<u>6,364</u>
Total liabilities	<u>424,717</u>	<u>77,153</u>
Net assets		
Unrestricted	(408,537)	30,047
Temporarily restricted	360,192	252,334
Permanently restricted (note 4)	<u>264,457</u>	<u>264,457</u>
Total net assets	<u>216,112</u>	<u>546,838</u>
Total liabilities and net assets	<u>\$640,829</u>	<u>\$623,991</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, 2002, and 2001

	<u>2002</u>	<u>2001</u>
Changes in unrestricted net assets:		
Operating revenue and other support		
Contributions	\$659,856	\$519,041
Contributions - In-kind (note 5)	325,585	74,642
Program and other revenues	108,267	53,464
Interest and dividends applied to current operations	4,070	7,778
Net assets released from restrictions (note 6)	<u>241,592</u>	<u>125,939</u>
Total operating revenue and other support	1,339,370	780,864
Operating expenses (note 10)		
Salaries, benefits, and payroll taxes	643,186	482,485
Program, promotion, and travel	457,366	163,525
Fund-raising expense	354,034	131,761
Gold Award ceremony	48,933	34,541
Professional fees	91,123	181,087
Depreciation	18,935	18,601
Board of Directors expense	132	12,136
Administrative and other expense	<u>101,863</u>	<u>70,611</u>
Total operating expenses	1,715,572	1,094,747
Subtotal	(376,202)	(313,883)
Other changes		
Unrealized investment losses not applied to current operations	(66,523)	(304,889)
Realized investment gains (losses) not applied to current operations	4,141	(1,301)
Increase (decrease) in unrestricted net assets	(438,584)	(620,073)
Changes in temporarily restricted net assets:		
Contributions	449,450	302,050
Bad debt loss on contributions receivable	(100,000)	
Net assets released from restrictions (note 6)	<u>(241,592)</u>	<u>(125,939)</u>
Increase (decrease) in temporarily restricted net assets	107,858	176,111
Increase (decrease) in net assets	(330,726)	(443,962)
Net assets at beginning of year	<u>546,838</u>	<u>990,800</u>
Net assets at end of year	<u>\$216,112</u>	<u>\$546,838</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, 2002, and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Contributions received	\$854,293	\$616,091
Cash received from councils and independents	108,267	53,464
Interest and dividends received	4,070	7,778
Cash paid to employees	(491,813)	(373,359)
Cash paid to vendors	<u>(624,843)</u>	<u>(582,411)</u>
Net cash provided/(used) from operating activities	(150,026)	(278,437)
Cash flows from investing activities:		
Purchase of equipment	(4,278)	(14,337)
Proceeds from sales of assets		(260)
Purchase of Investments	(50,000)	
Proceeds from sale of investments	<u>130,000</u>	
Net cash provided/(used) in investing activities	75,722	(14,597)
Cash flows from financing activities:		
Draws on line of credit	100,000	
Payments on capital lease	<u>(3,619)</u>	<u>(2,772)</u>
Net cash provided/(used) in financing activities	96,381	(2,772)
Net increase (decrease) in cash	22,077	(295,806)
Cash at beginning of the year	<u>(7,629)</u>	<u>288,177</u>
Cash at end of year	<u>\$14,448</u>	<u>(\$7,629)</u>
Reconciliation of change in net assets to net cash provided/(used) from operating activities		
Change in net assets	(\$330,726)	(\$443,962)
Adjustments to reconcile change in net assets to net cash used/provided from operating activities:		
Investment losses not applied to operations	62,321	306,190
Loss on disposal	1,367	
Depreciation expense	18,935	18,601
(Increase) in contributions receivable	(155,013)	(205,000)
Decrease (increase) in prepaid expenses	1,907	(49)
Decrease in other assets		170
Increase in accounts payable	235,593	39,068
Increase in accrued payroll, related taxes, and leave	<u>15,590</u>	<u>6,545</u>
Net cash provided/(used) from operating activities	<u>(\$150,026)</u>	<u>(\$278,437)</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, 2002, and 2001**Note 1. Organization**

The Congressional Award Foundation (the Foundation) was formed in 1979 under Public Law 96-114 and is a private, nonprofit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Service code established to promote initiative, achievement, and excellence among young people in the areas of public service, personal development, physical fitness, and expedition. New program participants totaled 3,709 in fiscal year 2002, an increase of about 50 percent over fiscal year 2001. As of September 30, 2002, there were over 11,000 active participants in the program. 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 savings accounts and all highly liquid investments with an original maturity of 3 months or less to be cash equivalents. Money market funds held in the Foundation's Congressional Award Fellowship Trust (the Trust) are not considered cash equivalents.

C. Contributions Receivable

Unconditional promises to give are recorded as revenue when the promise is made. Contributions receivable over multiple years are discounted to their present value using the applicable interest rate.

D. Equipment, Furniture and Fixtures, and Related Depreciation

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

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2002, and 2001**

E. Investments

Investments consist of a certificate of deposit and are carried at purchase price, which approximates fair value.

F. Classification of Net Assets

The net assets of the Foundation are reported as follows:

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

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.

During the year ended September 30, 2001, the Foundation adopted the provisions of Statement of Position 98-2, "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising," and allocated joint costs related to the annual gala between program and fundraising activities.

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that

THE CONGRESSIONAL AWARD FOUNDATION**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2002, and 2001**

affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. Contributions Receivable

At September 30, 2002, and 2001, promises to give totaled \$360,013 and \$205,000, respectively, of which \$310,000 and \$200,000, respectively, were temporarily restricted by the donors for future periods. At September 30, 2002, and 2001, \$200,000 and \$105,000, respectively, were due within 1 year and \$160,000 and \$100,000 were due within 2 years. All amounts are considered fully collectible. The promises to give were a result of the new "Charter for Youth" fundraising initiative. Charter for Youth benefactors are requested to contribute a minimum of \$100,000 per year for 3 consecutive years for the direct support of The Congressional Award and its initiatives for participant recruitment and awardee recognition. Charter for Youth members have the opportunity to participate in Congressional Award events, and receive recognition as benefactors at the international, national, and regional events and meetings.

Note 4. Congressional Award Fellowship Trust

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

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

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements
For the Fiscal Years Ended September 30, 2002, and 2001

At September 30, 2002, and 2001, the Trust Fund's investments at fair value consisted of the following:

Description	September 30,	
	2002	2001
Equity and debt securities	\$157,670	300,924
Money market funds	6,942	56,010
Total	<u>\$ 164,612</u>	<u>\$356,934</u>

Activity in the Trust Fund for the fiscal years ended September 30, 2002, and 2001 was as follows:

	September 30,	
	2002	2001
Interest and dividends	\$ 4,130	\$ 4,779
Net realized gains (losses)	4,141	(1,301)
Net unrealized losses	(66,523)	(304,889)
Total investment losses	(58,252)	(301,411)
Transfer to operations	(130,000)	
Investment earnings applied to current operations	(4,070)	(4,519)
Net change in Trust Fund investments	(192,322)	(305,930)
Trust Fund investments, beginning of year	<u>356,934</u>	<u>662,864</u>
Trust Fund investments, end of year	<u>\$ 164,612</u>	<u>\$ 356,934</u>
Value of Trust Fund (below) or above permanently restricted balance	<u>(\$99,845)</u>	<u>\$ 92,477</u>

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements
For the Fiscal Years Ended September 30, 2002, and 2001

Note 5. In-kind Contributions

During fiscal years 2002 and 2001, the Foundation received in-kind (noncash) contributions from donors, which are accounted for as contribution revenue and either as current period operating expenses or additions to capital assets. These noncash contributions are as follows:

	<u>2002</u>	<u>2001</u>
Promotional support	\$ 281,221	\$ 630
Professional services (legal and web hosting)	44,364	37,712
Supplies for fund-raising gala		26,300
Airline tickets		<u>10,000</u>
Total in-kind contributions	<u>\$325,585</u>	<u>\$ 74,642</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 3 of the Congressional Award Act, as amended, provides that the United States Mint may charge the United States Mint Public Enterprise Fund for the cost of striking Congressional Award Medals. The costs of these resources cannot be readily determined and, thus, are not included in the financial statements.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2002, and 2001 were available for the following programs and future periods:

	<u>2002</u>	<u>2001</u>
Contributions restricted for use in 2004	\$ 160,000	
Contributions restricted for use in 2003	160,000	\$100,000
Contributions restricted for use in 2002		100,000
Puerto Rico Council development	17,930	25,000
Nevada Council development	16,126	18,547
Oklahoma Council development	6,136	7,105
Mississippi Council development		<u>1,682</u>
Total	<u>\$360,192</u>	<u>\$252,334</u>

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements For the Fiscal Years Ended September 30, 2002, and 2001

Net assets released from restrictions during the years ended September 30, 2002, and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Contributions restricted for use in fiscal years 2002 and 2001, respectively	\$225,000	\$100,000
Puerto Rico Council development	7,070	
Nevada Council development	2,421	5,067
Mississippi Council development	1,682	15,708
Oklahoma Council development	969	2,154
DC Council development	2,000	2,631
South Bronx/New York Project	<u>2,450</u>	<u>379</u>
Total	\$241,592	\$125,939

Note 7. Employee Retirement Plan

For the benefit of its employees, the Foundation participates in a voluntary 403(b) tax-deferred annuity plan, which was activated on August 27, 1993. Under the plan, the Foundation may, but is not required to, make employer contributions to the plan. For 2002 and 2001, the Board voted to make matching contributions to qualified employees of up to 6 percent, which amounted to \$9,658 and \$8,610 in 2002 and 2001, respectively.

Note 8. Line of Credit

The Foundation has a \$100,000 line of credit with its bank that bears interest at 6 percent per annum. The line of credit is partially secured by the Foundation's investment in a \$50,000 certificate of deposit held by the same bank. At September 30, 2002, the outstanding balance on the line of credit was \$100,000. There was no outstanding line of credit at September 30, 2001.

Note 9. Related Party Activities

In June 2002, the CEO, Director of Finance, and the Director of Development of the Foundation used their personal credit cards to advance deposits and other costs related to the 2002 Gala in the amount of \$39,077. Due to lower than expected Gala sponsorships, funds were not available to reimburse these persons in a timely manner. As of September 30, 2002, the balance owed to these individuals was \$38,111, which included finance charges of \$843.

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements For the Fiscal Years Ended September 30, 2002, and 2001

On October 26, 2002, the CEO advanced the Foundation an additional \$1,280 by paying the answering service used to field program calls, thus avoiding cancellation of this service. On November 2, 2002, the CEO attended a donor reception in London, England and advanced the Foundation \$4,041 to pay for a reception and dinner.

The balance due to the Director of Development of \$1,945 was paid on October 16, 2002. Various amounts due to the CEO and Director of Finance have been paid since September 30, 2002, leaving a balance of \$13,396 still owed to those two individuals at March 31, 2003.

During fiscal year 2001, 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 2002 and 2001. An investment committee of the Board establishes investment guidelines and monitors the portfolio's performance.

Note 10. Expenses by Functional Classification

As permitted by SFAS No. 117, the Foundation has presented its operating expenses by natural classification in the accompanying Statements of Activities for the fiscal years ending September 30, 2002, and 2001. Presented below are the Foundation's expenses by functional classification for the fiscal years ended September 30, 2002, and 2001.

	2002	2001
Program activities	\$ 852,375	\$ 619,178
Fund-raising activities	616,018	278,392
Administrative activities	<u>247,179</u>	<u>197,176</u>
Total	<u>\$ 1,715,572</u>	<u>\$1,094,746</u>

For the year ended September 30, 2002, the Foundation incurred joint costs of \$248,632 related to the annual gala, of which \$108,260 and \$140,372 were allocated to program and fundraising, respectively.

In addition, total direct benefits provided to donors at the annual gala of \$12,000 and \$29,945 are included in program expense for the years ended September 30, 2002, and 2001, respectively.

THE CONGRESSIONAL AWARD FOUNDATION

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2002, and 2001**

Note 11. 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 \$330,726 and \$443,962 in 2002 and 2001, respectively. The decreases in net assets were a result of operating losses and unrealized losses in the value of the Foundation's investments in the Congressional Award Trust. As a result, the Foundation is experiencing increasing difficulty in meeting its obligations. While the Foundation is taking some 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 March 31, 2003, 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.

(194181)

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