

August 1998

FINANCIAL AUDIT

Capitol Preservation Fund's Fiscal Years 1997 and 1996 Financial Statements





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

**Comptroller General
of the United States**

B-279145

August 31, 1998

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 Capitol Preservation Fund for the fiscal years ended September 30, 1997 and 1996. It also discusses our (1) consideration of internal controls in conducting our audit and (2) evaluation of compliance with laws and regulations, noncompliance with which might have had a material effect on the financial statements during fiscal year 1997. We conducted our audit pursuant to 40 U.S.C. 188a-3 and in accordance with generally accepted government auditing standards.

We are sending copies of this report to all members of the Capitol Preservation Commission, the Architect of the Capitol, the Librarian of Congress, and other interested parties. Copies will be made available to others upon request. This report was prepared under the direction of Robert W. Gramling, Director, Corporate Audits and Standards, who may be reached at (202) 512-9406 if you or your staffs have any questions.

A handwritten signature in black ink that reads "Robert W. Gramling for". The signature is written in a cursive, flowing style.

James F. Hinchman
Acting Comptroller General
of the United States

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**Accounting and Information
Management Division**

B-279145

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the statements of financial position of the Capitol Preservation Fund as of September 30, 1997 and 1996, and the related statements of activities and statements of cash flows for the fiscal years then ended. We found

- the financial statements were reliable in all material respects,
- no material weaknesses in the internal controls we tested, and
- no reportable noncompliance with selected provisions of laws and regulations we tested for the fiscal year ended September 30, 1997.

The following sections provide additional detail concerning 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 generally accepted accounting principles, the Capitol Preservation Fund's financial position as of September 30, 1997 and 1996, and the results of its activities and its cash flows for the fiscal years then ended.

Consideration of Internal Controls

We gained an understanding of internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with management's authority and with laws and regulations that could have a direct and material effect on the financial statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability over assets.

The objective of our internal control work was to determine procedures for auditing the financial statements, not to express an opinion on internal controls. Accordingly, we do not express such an opinion. However, for the controls we tested, we found no material weaknesses in internal control and its operations for the fiscal year ended September 30, 1997. A

material weakness is a reportable condition¹ in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of their assigned duties. Our internal control work would not necessarily disclose all material weaknesses.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under 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.

Objectives, Scope, and Methodology

The Fund's management is responsible for

- preparing the Fund's annual financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining the Fund's internal controls to provide reasonable assurance that the internal control objectives mentioned above are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatements and presented fairly, in all material respects, in conformity with generally accepted accounting principles. Also, we are responsible for obtaining a sufficient understanding of internal controls to plan the audit and for testing compliance with selected provisions of laws and regulations.

In order to fulfill these responsibilities, we

- examined evidence supporting the amounts and disclosures in the financial statements and notes;
- assessed the accounting principles used by management;
- evaluated the overall presentation of the financial statements;

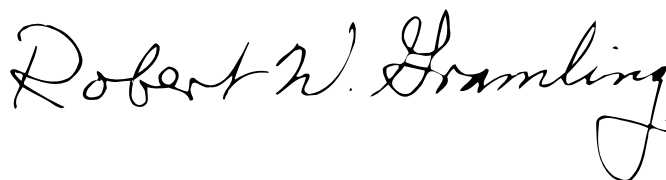
¹Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets.

-
- obtained an understanding of the internal controls related to safeguarding assets, compliance with laws and regulations, and financial reporting; and
 - tested compliance with selected provisions of laws and regulations.

We conducted our audit from May 6, 1998, through August 6, 1998, in accordance with generally accepted government auditing standards.

Library of Congress Comments

We provided a draft of our report to the Director of Financial Services for the Library of Congress for review and comment. The Library of Congress provides financial management services for the Capitol Preservation Fund including preparing the Fund's financial statements. The Director agreed with the contents of our report.

A handwritten signature in black ink that reads "Robert W. Gramling". The signature is written in a cursive style with a large, stylized "G" at the end.

Robert W. Gramling
Director, Corporate Audits
and Standards

August 6, 1998

Financial Statements

Statements of Financial Position

as of September 30

	<u>1997</u>	<u>1996</u>
Assets		
Cash	\$ 23,148	\$ 18,939
Investments, net (note 3)	25,019,755	23,662,736
Accrued interest receivable on investments	264,635	316,369
Accounts receivable - surcharges	<u>0</u>	<u>12,145</u>
Total assets	<u>\$ 25,307,538</u>	<u>\$ 24,010,189</u>
Liabilities and Net Assets		
Total liabilities	0	0
Net Assets		
Unrestricted net assets	<u>\$ 25,307,538</u>	<u>\$ 24,010,189</u>
Total net assets	<u>\$ 25,307,538</u>	<u>\$ 24,010,189</u>
Total Liabilities and Net Assets	<u>\$ 25,307,538</u>	<u>\$ 24,010,189</u>

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

Statements of Activities

for the Fiscal Years ended September 30

	<u>1997</u>	<u>1996</u>
Changes in Unrestricted Net Assets		
Operating Revenues		
Interest (Note 4)	\$1,297,350	\$1,249,815
Royalties	<u>0</u>	<u>75</u>
Total operating revenues	\$1,297,350	\$1,249,890
Operating Expenses		
Capitol Visitors Center	<u>0</u>	<u>15,044</u>
Total operating expenses	\$0	\$15,044
Increase in unrestricted net assets	\$1,297,350	\$1,234,846
Increase in Net Assets	\$1,297,350	\$1,234,846
Net Assets at Beginning of Year	<u>\$24,010,189</u>	<u>\$22,775,343</u>
Net Assets at Year-End	<u>\$25,307,539</u>	<u>\$24,010,189</u>

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

Statements of Cash Flows

for the Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
Cash Flows From Operating Activities		
Interest received	\$1,349,083	\$1,229,617
Coin surcharge received	12,145	178,205
Cash received from sale of book	0	1,800
Cash paid for expenses	<u>0</u>	<u>(28,221)</u>
Net cash provided from operating activities	\$1,361,228	\$1,381,401
Cash Flows From Investing Activities		
Purchases of Treasury securities	\$(53,027,936)	\$(49,199,813)
Maturities of Treasury securities	<u>51,670,917</u>	<u>47,815,382</u>
Net cash provided from investing activities	\$(1,357,019)	\$(1,384,431)
Net (Decrease) Increase in Cash	\$ 4,209	\$(3,030)
Cash at beginning of year	<u>18,939</u>	<u>21,969</u>
Cash at end of year	<u>\$23,148</u>	<u>\$18,939</u>
Reconciliation of Changes in Net Assets to Net Cash From Operating Activities		
Changes in Net Assets	\$1,297,350	\$1,234,846
Adjustments to reconcile changes in net assets to net cash provided from operating activities		
Decrease in accounts receivable - surcharges	12,145	178,205
Decrease in accounts receivable - royalties	0	1,725
(Decrease) in accounts payable	0	(13,177)
Decrease (increase) in accrued interest	<u>51,733</u>	<u>(20,198)</u>
Total Adjustments	63,878	146,555
Net Cash From Operating Activities	<u>\$1,361,228</u>	<u>\$1,381,401</u>

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

Notes to the Financial Statements

Note 1. Description of Entity

The Capitol Preservation Commission (the Commission) was established under Title VIII of Public Law 100-696 in November 1988 for the purpose of providing for improvements in, preservation of, and acquisitions for the United States Capitol and providing works of fine art and other property for display in the United States Capitol and other locations under the control of the Congress.

To finance improvement, preservation, and acquisition activities of the Commission, Title VIII of Public Law 100-696 established the Capitol Preservation Fund (the Fund) within the U.S. Treasury. The Fund consists of assets provided through deposits of charitable contributions, surcharges received by the Secretary of the Treasury from the sale of coins under the Bicentennial of the United States Congress Commemorative Coin Act and the Bicentennial of the United States Capitol Commemorative Coin Act and interest on the invested portions of the Fund's assets. Fund assets not required to finance current improvement, preservation, and acquisition activities are invested in interest-bearing obligations of the United States.

In accordance with its rules, the Commission may fund or assist in the funding of improvements to the Capitol Building and surrounding grounds if such improvements are authorized, undertaken, and completed under the procedures established by the Congress for such purposes. With respect to works of fine art and other property for display, the Commission is authorized to expend \$400,000 (\$200,000 for the House of Representatives and \$200,000 for the Senate) for the purchase of art, furnishings, or items of historical interest provided that such expenses are approved by a majority of the members of the Commission from the House of Congress for which such purchases are made. However, the Commission may not maintain any collection of fine or decorative art, or other property, but may assist in the transfer of such items to a Congressional entity (such as the Senate Commission on Art, the House Fine Arts Board, or the Joint Committee on the Library) or facilitate the disposal of items.

The Architect of the Capitol, the Senate Commission on Art, and the House of Representatives Fine Arts Board are required by Public Law 100-696 (1988), to provide staff support and assistance to the Commission. As necessary, the Architect of the Capitol awards contracts and procures goods and services to complete projects established by the Commission, and ensures that goods and services purchased from vendors are received. Similarly, the Library of Congress, pursuant to Public Law 101-45, (1989) is required to provide financial management services for the Commission. These services include coordinating activities with the Department of the Treasury for the deposit, disbursement, investment, and management of the Capitol Preservation Fund. In addition to these congressional entities, the Secretary of the Senate and the Clerk of the House of Representatives, pursuant to Commission Rules, provide additional support and assistance.

Note 2. Summary of Significant Accounting Policies

The Fund's financial statements have been prepared in accordance with generally accepted accounting principles and reflect--on an accrual basis--the receipt and use of the Fund's assets to finance the Commission's improvement, preservation, and acquisition activities.

Effective for fiscal year 1996, the Fund's financial statements became subject to accounting and disclosure requirements applicable to not-for-profit organizations--specifically Statements of Financial Accounting Standards Nos. 116, 117, and 124. These requirements include accounting and disclosure guidelines for investments, contributions received and made, and the form and content of financial statements. However, these requirements have had only limited impact on the Fund's financial statements because (1) the Fund received no contributions during fiscal years 1996 and 1997 and no prior year contributions contained outstanding restrictions, (2) the Fund's assets are unrestricted, and (3) the Fund's investments are invested in relatively short term (3 and 6 month) interest-bearing Treasury obligations.

The Architect of the Capitol, the Library of Congress, and other congressional entities are required by law to provide support services to the Commission. The cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the other entities. To the extent that these services are provided, they are not considered operating expenses of the Fund.

Once approved and funded by the Commission, the improvements, preservations, and acquisitions are transferred to the Architect of the Capitol and/or other congressional entities. Through their transfer, these assets become the accounting responsibility of other congressional entities and are not considered assets of the Fund.

Note 3. Investments, Net

Deposits to the Fund from contributions, coin surcharges, and interest on invested funds that are not needed currently to finance improvement, preservation, and acquisition activities are invested in interest-bearing obligations of the United States, which are purchased from the U. S. Treasury at a discount. The Commission has directed the Library of Congress to invest funds derived from contributions in 3-month Treasury securities and funds derived from coin surcharges in 6-month Treasury securities. The values of investments outstanding as of September 30, 1997 and 1996, net of discounts were \$25,019,755 and \$23,662,736, respectively. Annual investment rates ranged from 4.78 percent to 5.39 percent in fiscal year 1997, and from 4.72 percent to 5.58 percent in fiscal year 1996.

	<u>Outstanding Investments as of September 30</u>	
	<u>1997</u>	<u>1996</u>
Face value of investments	\$25,665,000	\$ 24,285,000
Less: discounts	<u>(645,245)</u>	<u>(622,264)</u>
Investments, Net of Discounts	\$ <u>25,019,755</u>	\$ <u>23,662,736</u>

Note 4. Revenues

Earned revenues during fiscal year 1997 of \$1,297,350 consisted only of interest on United States Treasury obligations. During fiscal year 1996, earned revenue consisted of \$1,249,815 of interest on Treasury obligations and \$75 of royalties.

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