GAO

United States General Accounting Office

Report to the Congress

January 1990

FINANCIAL AUDIT

Pennsylvania Avenue Development Corporation's 1988 Financial Statements

140373

GAO/AFMD-90-22

GAO

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

Comptroller General
of the United States

B-199096

January 11, 1990

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

This report presents our opinion on the Pennsylvania Avenue Development Corporation's financial statements for the fiscal year ended September 30, 1988. Reports on the Corporation's internal accounting controls and on its compliance with laws and regulations are also provided.

The Corporation was created by the Pennsylvania Avenue Development Corporation Act of 1972, which provided the Corporation responsibility to prepare and implement a development plan for a certain area adjacent to Pennsylvania Avenue between the Capitol and the White House. To ensure that the plan is carried out, the Congress gave the Corporation the power of eminent domain and authority to regulate both private and public development, to undertake construction activities, and to enter into a wide variety of real estate and other commercial transactions.

We are required to conduct an audit of the Corporation at least once every 3 years under the provisions of the Government Corporation Control Act (31 U.S.C. 9105). To help fulfill our responsibility, we contracted with an independent certified public accounting firm to conduct a financial audit of the Corporation for the fiscal year ended September 30, 1988. We determined the scope of the audit work, monitored its progress at all key points, reviewed the working papers of the certified public accountants, Arthur Andersen & Co., and performed other procedures as we deemed necessary. Our audit was conducted in accordance with generally accepted government auditing standards.

In our opinion, and consistent with the opinion of Arthur Andersen & Co., the Pennsylvania Avenue Development Corporation's financial statements present fairly, in all material respects, its financial position as of September 30, 1988, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles. The 1987 financial statements, which are presented for comparative purposes, have not been audited and thus an opinion was not expressed on them.

The report by Arthur Andersen & Co. on internal accounting controls disclosed no condition believed to be a material weakness. The auditors' report on compliance with laws and regulations disclosed nothing to indicate that the Corporation had not complied with such applicable laws and regulations which could have a material effect on the financial statements. We concur with these reports.

During the course of the audit, Arthur Andersen & Co. also identified several matters which, although not material to the financial statements, were communicated for the Corporation's consideration in a separate management letter.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the Board of Directors of the Pennsylvania Avenue Development Corporation.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Auditors' Opinion

ARTHUR ANDERSEN & CO.

WASHINGTON, D. C.

To the Comptroller General of the United States
and the Board of Directors of the Pennsylvania
Avenue Development Corporation:

We have audited the accompanying balance sheet of the PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION (a wholly owned U.S. Government Corporation) as of September 30, 1988, and the related statements of revenues, expended appropriations and expenses, changes in investment of U.S. Government and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Pennsylvania Avenue Development Corporation for the year ended September 30, 1987 were not audited by us and, accordingly, we do not express an opinion on them.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office Government Auditing Standards (1988 Revision). 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.

We have also reviewed the adjustments described in Note 19 that were applied to restate the 1987 unaudited financial statements. In our opinion, such adjustments are appropriate and have been properly applied to the 1987 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Avenue Development Corporation as of September 30, 1988, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Washington, D.C.,
April 11, 1989.

Auditors' Report on Internal Accounting Controls

ARTHUR ANDERSEN & CO.
WASHINGTON, D. C.

To the Comptroller General of the United States
and the Board of Directors of the Pennsylvania
Avenue Development Corporation:

We have audited the financial statements of the PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION (the "Corporation") for the year ended September 30, 1988, and have issued our report thereon dated April 11, 1989. Our audit was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office Government Auditing Standards (1988 Revision). As part of our audit, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. For the purpose of our report, we have classified the significant internal controls into the following categories.

- Revenue
- Treasury
- Expenditure - Payroll
- Expenditure - Purchasing
- Fixed Assets
- Financial Reporting

Our study did not include any of the categories listed above because we determined it would be more efficient to substantively test these records.

The Corporation's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system

ARTHUR ANDERSEN & CO.

- 2 -

are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that 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 internal control structure, 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 with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system taken as a whole. However, during our audit we did not become aware of any conditions that we believe to be a material weakness.

During the course of our audit, we identified a number of other weaknesses in internal accounting controls which will be reported in a separate Management Letter dated April 11, 1989. Although we did not consider these weaknesses to be material to the financial statements, they nonetheless merit management's attention.

This report is intended solely for the use of the U.S. General Accounting Office and the Pennsylvania Avenue Development Corporation. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the addresses, is a matter of public record.

Arthur Andersen & Co.

Washington, D.C.,
April 11, 1989.

Auditors' Report on Compliance With Laws and Regulations

ARTHUR ANDERSEN & CO.
WASHINGTON, D. C.

To the Comptroller General of the United States
and the Board of Directors of the Pennsylvania
Avenue Development Corporation:

We have audited the financial statements of the PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION (the "Corporation") for the year ended September 30, 1988, and have issued our report thereon dated April 11, 1989. Our audit was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office Government Auditing Standards (1988 Revision), and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Corporation's management is responsible for compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the Corporation's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Corporation.

The results of our tests indicate that, for the items tested, the Corporation complied with those provisions of laws and regulations, noncompliance with which could have a material effect on the financial statements. Nothing came to our attention that caused us to believe that, for the items not tested, the Corporation was not in compliance with laws or regulations, noncompliance with which could have a material effect on the Corporation's financial statements.

This report is intended solely for the use of the U.S. General Accounting Office and the Pennsylvania Avenue Development Corporation. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the addressees, is a matter of public record.

Arthur Andersen & Co.

Washington, D.C.,
April 11, 1989.

Financial Statements

Balance Sheets

ASSETS

	As of September 30, 1988	As of September 30, 1987 (Unaudited)
CURRENT ASSETS:		
Cash, including restricted cash of $1,692,430 and $1,367,712 in 1988 and 1987, respectively (Notes 3 and 13)	$ 22,128,838	$ 16,447,245
Investments - Federal securities	20,567,723	-
Accounts receivable (Note 4)	159,347	979,256
Accrued interest receivable	9,757	-
Total current assets	42,865,665	17,426,501
PROPERTY AND EQUIPMENT:		
Land, at cost (Notes 2, 5, 10 and 13)	62,305,921	100,873,477
Construction in progress (Note 6)	93,812,004	86,165,000
Equipment, furniture and fixtures, net (Notes 2 and 7)	118,492	115,086
Leasehold improvements, net (Note 8)	-	1,965
Total property and equipment	156,236,417	187,155,528
OTHER ASSETS (Notes 2 and 15):		
Deferred rent receivable	2,553,613	2,973,217
Deferred interest receivable	1,643,514	1,860,798
Total other assets	4,197,127	4,834,015
TOTAL ASSETS	$203,299,209	$209,416,044

The accompanying notes are an integral part of these statements.

LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT

	As of September 30,	
	1988	1987 (Unaudited)
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities (Note 9)	$ 1,809,267	$ 782,452
Accrued interest payable (Note 10)	18,662,472	42,407,508
Deposits held for developers	1,692,430	1,367,712
Accrued annual leave	96,220	94,578
Other liabilities (Note 13)	568,080	60,449
Total current liabilities	22,828,469	44,712,699
Notes payable to U.S. Treasury (Note 10)	49,903,282	49,903,282
Total liabilities	72,731,751	94,615,981
INVESTMENT OF THE U.S. GOVERNMENT:		
Invested capital (Note 11)	113,462,012	107,135,018
Unexpended appropriation (Note 12)	13,815,219	15,659,660
Donations and other items	4,033,792	2,825,435
Cumulative results of operations	(743,565)	(10,820,050)
Total investment of the U.S. Government	130,567,458	114,800,063
TOTAL LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT	$203,299,209	$209,416,044

The accompanying notes are an integral part of these statements.

Statements of Revenues, Expended Appropriations and Expenses

	For the Years Ended September 30, 1988	1987 (Unaudited)
REVENUES:		
Sale of land (Note 13)	$58,414,253	$ -
Rental income (Notes 14 and 19)	2,817,095	2,941,838
Interest income (Note 15)	1,108,395	2,152,751
Miscellaneous	1,451,338	1,144,301
Total revenue	63,791,081	6,238,890
EXPENDED APPROPRIATIONS	2,647,652	2,471,988
Total revenues and expended appropriations	66,438,733	8,710,878
EXPENSES:		
Cost of land sold (Note 13)	41,108,860	-
Interest expense (Note 10)	11,104,258	10,397,457
Personnel compensation and benefits (Note 16)	1,483,535	1,420,704
Property management expense (Note 17)	755,192	273,758
Administrative expenses	780,488	811,443
Depreciation and amortization expense	37,321	38,222
Operating expense - Lansburgh's	118,981	223,528
Bad debt expense	-	18,398
Miscellaneous expenses	14,521	4,776
Total expenses	55,403,156	13,188,286
NET INCOME (LOSS)	$11,035,577	$(4,477,408)

The accompanying notes are an integral part of these statements.

Statements of Changes in Investment of U.S. Government

FOR THE YEARS ENDED SEPTEMBER 30, 1987 AND

SEPTEMBER 30, 1988 (AUDITED)

	Invested Capital	Unexpended Appropriation
BALANCE AT SEPTEMBER 30, 1986 (UNAUDITED)	$101,421,954	$16,567,199
Appropriation from U.S. government	-	6,321,000
Expended appropriation	-	(2,471,988)
Increase (decrease) in invested capital	5,713,064	(5,544,638)
Net income (loss)	-	1,003,521
Appropriation returned to U.S. government	-	(215,434)
BALANCE AT SEPTEMBER 30, 1987 (UNAUDITED)	107,135,018	15,659,660
Appropriation from U.S. government	-	8,616,000
Expended appropriation	-	(2,647,652)
Increase (decrease) in invested capital	6,326,994	(8,572,396)
Net income	-	923,482
Appropriation returned to U.S. government	-	(163,875)
BALANCE AT SEPTEMBER 30, 1988	$113,462,012	$13,815,219

The accompanying notes are an integral part of these statements.

Donations and Other Items	Cumulative Results of Operations	Total
$2,073,419	$ (5,339,161)	$114,723,411
-	-	6,321,000
-	-	(2,471,988)
752,056	-	920,482
(40)	(5,480,889)	(4,477,408)
-	-	(215,434)
2,825,435	(10,820,050)	114,800,063
-	-	8,616,000
-	-	(2,647,652)
1,172,747	-	(1,072,655)
35,610	10,076,485	11,035,577
-	-	(163,875)
$4,033,792	$ (743,565)	$130,567,458

Statements of Cash Flows

	For the Years Ended September 30, 1988	1987 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 11,035,577	$ (4,477,408)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -		
Depreciation and amortization	37,321	38,222
Gain on sale of land	(17,305,393)	-
Bad debt expense	-	18,398
Change in assets and liabilities -		
Decrease in accounts receivable	819,909	1,237,449
Increase in accrued interest receivable	(9,757)	-
Decrease (increase) in deferred rent receivable	419,604	(399,900)
Decrease (increase) in deferred interest receivable	217,284	(908,183)
Increase in accounts payable and accrued liabilities	1,026,814	495,368
Increase in deposits held for developers	324,718	1,367,712
(Decrease) increase in accrued interest payable	(23,745,036)	9,962,753
Increase in accrued annual leave	1,642	12,960
Increase in other liabilities	507,631	8,824
Total adjustments	(37,705,263)	11,833,603
Net cash (used in) provided by operating activities	(26,669,686)	7,356,195
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase) sale of Federal securities	(20,567,723)	15,632,000
Proceeds from sale of land	58,414,253	-
Purchase of land	-	(22,407,010)
Land additions	(2,541,303)	-
Increase in construction in progress	(7,647,004)	(6,874,219)
(Purchase) sale of equipment, furniture and fixtures	(38,762)	13,685
Leasehold improvements	-	(3,930)
Decrease in invested capital	(1,072,655)	(722,975)
Net cash provided by (used in) investing activities	26,546,806	(14,362,449)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on notes payable to U.S. Treasury	-	(2,504,250)
Appropriation from U.S. Government	8,616,000	6,321,000
Expended appropriations	(2,647,652)	(2,471,988)
Appropriation returned to U.S. Government	(163,875)	(215,435)
Net cash provided by financing activities	5,804,473	1,129,327
NET INCREASE (DECREASE) IN CASH	5,681,593	(5,876,927)
CASH, beginning of year	16,447,245	22,324,172
CASH, end of year	$ 22,128,838	$ 16,447,245
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest (net of amount capitalized)	$ 35,473,416	$ 955,561

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

AS OF SEPTEMBER 30, 1988 AND 1987 (UNAUDITED)

(1) ORGANIZATION

The Pennsylvania Avenue Development Corporation (the "Corporation"), a wholly owned government corporation, was created by Congress under the Pennsylvania Avenue Development Corporation Act of 1972 (the "Act"). The Act provided for the preparation and implementation of a development plan for certain areas adjacent to Pennsylvania Avenue between the Capitol and the White House.

The construction and development is a joint venture between the Federal government and private industry. The Corporation is financing a program of extensive public improvements and expanded pedestrian amenities. To facilitate private development, the Corporation buys and assembles properties in the area and leases or sells them back to private investors for development according to the Pennsylvania Avenue Plan (the "Plan"). A private investor may also purchase land directly from a land owner and develop it in accordance with the Plan.

The Corporation utilizes four separate funds for its operations. The financial statements include all funds of the Pennsylvania Avenue Development Corporation. Interfund and interoperational transactions and balances have been eliminated.

The Salaries and Expense Fund is an annual appropriation to pay salaries and the administrative expenses of the Corporation.

The Land Acquisition and Development Fund is a revolving fund that provides the Corporation with the resources with which to assist prospective developers in their efforts to assemble real estate for development projects consistent with the development plan. The Corporation may borrow money from the U.S. Treasury. Such borrowings are repaid to the Treasury with revenues from selling or leasing acquired property to private developers (see Note 10).

The Public Development Fund utilizes multiyear appropriations to pay for public development activities and projects. These public service costs include: public improvements, historic preservation, and relocation assistance to displaced tenants of buildings purchased by the Corporation. In fiscal 1988, the Corporation established a special funding mechanism designated for the development of an international cultural and trade center on the Federal Triangle property in the District of Columbia.

The Donations and Other Items Fund accounts for contributions from individuals, corporations, and private organizations to the Corporation and the related disbursements of these contributions.

The Corporation's program is expected to be complete by the end of 1992, at which time the Corporation's legislation provides for successor agencies to assume responsibility for maintenance of properties and public improvements and continuing conformance to the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles.

Statement of Cash Flows - The Corporation, as required by generally accepted accounting principles, has presented a statement of cash flows for the year ended September 30, 1988. The Corporation, as permitted by Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," has elected to restate the September 30, 1987, Statement of Changes in Financial Position.

Land - Land includes charges for direct land purchase costs, appraisals, feasibility studies, title searches, insurance, fees, surveys, property owner reimbursements, and demolition of buildings. The Corporation considers buildings acquired through land purchase to have no economic value as the buildings will be demolished and, therefore, the buildings are not recorded as a separate asset.

Capitalization of Interest - Interest charges incurred on borrowings from the U.S. Treasury are considered a cost of acquiring land and are, therefore, capitalized into land. When a property achieves its final development and is substantially ready for sale or transfer, the interest is considered an operating expense of the accounting period. Interest capitalized during development is included in cost of land sold.

Depreciation - Depreciation is computed on the straight-line method based on the estimated useful life of the assets, which is 12 years for furniture and 5 years equipment and leasehold improvements, over the term of the lease.

Deferred Rent - The Corporation's long-term leases with developers provide for developer incentives, in the form of deferrals of rent due, to achieve affirmative action and early project completion objectives. Such deferrals cannot exceed 50 percent of the base rent due and must be repaid, with accrued interest, in accordance with terms of the lease agreement.

Investments - The Corporation invests in short-term Treasury Securities and records them at the lower of aggregate cost or market value. At September 30, 1988, cost approximated market value.

(3) CASH

Included in the cash balance at year-end are deposits held for developers pending satisfactory completion of various development projects. Subsequent to September 30, 1988, the Corporation returned $1,437,100 to such developers. Cash as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Appropriation fund balances with U.S. Treasury	$14,894,071	$14,596,809
Donations	71,355	474,850
Revolving fund	5,470,982	7,874
Restricted cash held for developers	1,692,430	1,367,712
Total cash	$22,128,838	$16,447,245

(4) ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Government	$155,067	$ 51,988
Nongovernment	4,280	927,268
Total	$159,347	$979,256

(5) LAND

Land as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Land held for lease and resale	$39,726,629	$ 76,039,208
Land improvements	21,429,245	21,429,246
Capitalized interest	1,150,047	3,405,023
Total land	$62,305,921	$100,873,477

(6) CONSTRUCTION IN PROGRESS

Construction in progress represents capital improvements to streets, parks, sidewalks, and other related improvements located within the area being developed. When the capital improvements projects are completed, the account is reclassified as land.

(7) EQUIPMENT, FURNITURE AND FIXTURES

Equipment, furniture and fixtures as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Acquisition at cost	$ 440,424	$ 399,527
Less - Accumulated depreciation	(321,932)	(284,441)
Equipment, furniture and fixtures, net	$ 118,492	$ 115,086

(8) LEASEHOLD IMPROVEMENTS

Leasehold improvements as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Improvements at cost	$ 1,459,550	$ 1,459,550
Less - Accumulated depreciation	(1,459,550)	(1,457,585)
Leasehold improvements, net	$ -	$ 1,965

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Government	$ 447,194	$215,744
Nongovernment	1,362,073	566,708
Total accounts payable and accrued liabilities	$1,809,267	$782,452

(10) NOTES AND INTEREST PAYABLE TO THE U.S. TREASURY

The Corporation has various unsecured loans outstanding with the U.S. Treasury. At September 30, 1988, there were no outstanding principal and interest payments that were due to the U.S. Treasury within one year. The Corporation has the option of extending the original due date of principal and interest up to a maximum of 40 years, pursuant to the borrowing agreements between the Corporation and the U.S. Treasury. At September 30, 1988, the Corporation had an unused line of credit with the U.S. Treasury totaling $23,746,543.

The Corporation's weighted-average interest rate for notes outstanding during the year was 12.7 percent. Interest expense for the year ended September 30, 1988, was $11,728,830 and included capitalized interest of $624,572 included in land.

The long-term notes which mature in each of the five years succeeding September 30, 1988, are as follows:

Fiscal Year	Principal
1989	$ -
1990	3,160,366
1991	-
1992	-
1993 and thereafter	46,742,916
	$49,903,282

(11) INVESTED CAPITAL

Invested capital as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Appropriation for land and land improvements	$113,441,271	$107,116,551
Appropriations for equipment	20,741	18,467
Total invested capital	$113,462,012	$107,135,018

(12) UNEXPENDED APPROPRIATIONS

Unexpended appropriations as of September 30, 1988 and 1987, is comprised of the following:

	1988	1987 (Unaudited)
Unobligated	$7,647,358	$6,518,986
Undelivered orders	6,167,861	9,140,674
Total unexpended appropriations	$13,815,219	$15,659,660

(13) SALE OF LAND

During the year ended September 30, 1988, the Corporation sold real estate sites as follows:

Property	Sales Price	Cost	Gain on Sale
Square 254	$43,101,900	$27,154,550	$15,947,350
Square 408	15,312,353	13,954,310	1,358,043
Total	$58,414,253	$41,108,860	$17,305,393

Additionally, the Corporation entered into a contract to sell the Lansburgh's building and adjacent buildings. The Corporation, in accordance with generally accepted accounting principles, will not recognize this sale until fiscal 1989 because the sale was not consummated until after year-end. A $500,000 deposit relating to the sale of this building is included in cash and other liabilities in the accompanying balance sheet at September 30, 1988.

(14) RENTAL INCOME

Rental income was generated from long-term leases of Corporation properties to developers and short-term leasing of properties awaiting redevelopment.

The future minimum leasing revenues on noncancelable, long-term operating leases, exclusive of deferred rent payments, are as follows:

1989	$ 802,350
1990	802,350
1991	802,350
1992	802,350
After 1992	69,804,450
Total future minimum rentals	$73,013,850

(15) INTEREST INCOME

The Corporation earns interest on the rent that developers are allowed to defer and, in accordance with an agreement with the U.S. Treasury, on its daily cash balance. Interest income for fiscal years 1988 and 1987 was as follows:

	1988	1987 (Unaudited)
On gifts and donations	$ 1,622	$ 1,412
On Federal securities	336,704	737,997
On daily cash balance at U.S. Treasury	131,343	870,975
On deferred rent	638,726	542,367
Total interest income	$1,108,395	$2,152,751

(16) PERSONNEL COMPENSATION AND BENEFITS

The employees of the Corporation are covered by either the U.S. Civil Service Retirement Plan or the Federal Employees Retirement System.

The cost of the Corporation's contribution to the pension plans is included in the personnel compensation and benefits expenditures. All permanent, full-time and part-time employees who were employed by the U.S. government prior to January 1, 1984, are covered by the contributory Civil Service Retirement System plan, unless they elected to be covered instead by the Federal Employees Retirement System. The Corporation makes biweekly contributions to the plan equal to the employee's biweekly contributions. Employees hired after January 1, 1984 are covered by, and make contributions in accordance with, the Federal Employees Retirement System.

The cost of the Corporation's contribution to the retirement plans amounted to $97,998 and $68,366 in fiscal years 1988 and 1987, respectively.

(17) PROPERTY MANAGEMENT EXPENSE

The Corporation manages its owned real properties that have not been redeveloped. The Corporation collects the rent and pays the expenses associated with these properties. In addition, the Corporation incurs other property management expenses which are associated with the parks, plazas, and other public improvements within the Corporation's project area. Property management expense for fiscal 1988 and 1987 is comprised of the following:

	1988	1987 (Unaudited)
Square development property expenses	$ 57,059	$ 18,392
Public development property expenses	698,133	255,366
Total	$755,192	$273,758

(18) RESTRICTIONS

In addition to the statutory controls established by government corporation control laws (31 U.S.C. 9101 through 9109), the Corporation is subject to management oversight by the Office of Management and Budget. Such oversight could affect the Corporation's financial position or operating results in a manner that differs from those that might have been obtained if the Corporation were autonomous.

(19) PRIOR-PERIOD ADJUSTMENTS

Subsequent to the issuance of its 1987 financial statements, the Corporation discovered an error in the amount of $73,722 in the determination of its 1987 rental income, an error of $42,085 in the determination of its property management expense, and $150,000 in the determination of unexpended appropriation. In addition, an adjustment totaling $1,367,712 has been recorded in 1987, to properly reflect restricted cash and deposits held for developers.

Accordingly, the 1987 financial statements have been restated to correct these errors, the effect of which increased the previously recorded loss for 1987 from $4,253,686 to $4,477,408, decreased the previously recorded unexpended appropriation balance at September 30, 1987, from $15,809,660 to $15,659,660 and increased the invested capital balance at September 30, 1987, from $107,092,933 to $107,135,018.

(20) COMMITMENTS

The Corporation leases office space under a noncancelable operating lease agreement which expires in 1990. Minimum rentals are as follows.

Fiscal Year	Amount
1989	$588,072
1990	294,036
Total	$882,108

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.