

July 2005

FINANCIAL AUDIT

Capitol Preservation
Fund's Fiscal Years
2003 and 2002
Financial Statements



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United States Government Accountability Office
Washington, D.C. 20548

July 14, 2005

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 (the Fund) for the fiscal years ended September 30, 2003, and 2002. It also discusses our consideration of the Fund's internal controls and our tests of compliance with laws and regulations during fiscal year 2003. We conducted our audit pursuant to 2 U.S.C. 2084 and in accordance with U.S. generally accepted government auditing standards. We appreciate the cooperation and assistance of the Office of the Secretary of the Senate, the Office of the Clerk of the House of Representatives, and the staff of the Architect of the Capitol and the Library of Congress during our audit.

We are sending copies of this report to the members of the Capitol Preservation Commission, the Secretary of the Senate, the Clerk of the House of Representatives, the Architect of the Capitol, the Librarian of Congress, and other interested parties.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9406 or by e-mail at franzelj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this assignment were John Reilly, Greg Ziombra, and Ryan Holden.

Jeanette M. Franzel
Director
Financial Management and Assurance



United States Government Accountability Office
Washington, D.C. 20548

To the Members of the Capitol Preservation Commission

We have audited the statements of financial position of the Capitol Preservation Fund (the Fund) as of September 30, 2003, and 2002, and the related statements of activities and 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;
- no material weaknesses in the internal controls we tested 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 Capitol Preservation Fund's financial position as of September 30, 2003, and 2002, and the results of its activities and its cash flows for the fiscal years then ended.

Consideration of Internal Control

In planning and performing our audit of the Fund's fiscal year 2003 financial statements, we considered the Fund's internal controls over financial reporting and compliance.¹ We did this to determine our procedures for auditing the financial statements, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance. However, for the controls we tested, we found no material weaknesses in internal controls over financial reporting (including safeguarding assets) and compliance. A material weakness is a reportable condition² in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance 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 performing their duties. Our consideration and testing of internal controls 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 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.

Objective, Scope, and Methodology

The management of the Capitol Preservation Commission is responsible for

¹ The objectives of financial reporting controls are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objective of compliance controls is to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

² Reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the ability to meet the objectives of internal control.

-
- preparing the Fund's financial statements in conformity with U.S. generally accepted accounting principles;
 - establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of internal control over financial reporting and compliance are met; and
 - complying with applicable laws and regulations.

We are responsible for

- obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- obtaining a sufficient understanding of internal controls over financial reporting and compliance with laws and regulations to plan the audit; and
- 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 (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements and notes; (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested selected internal controls; and (6) tested compliance with selected provisions of the following laws:

- Capitol Preservation Commission and Capitol Preservation Fund enabling legislation, 2 U.S.C. 2081-2086 and
- United States Capitol Visitor Center Commemorative Coin Act of 1999, title II, Public Law 106-126.

Our consideration of internal controls over financial reporting and compliance with laws and regulations was limited to gaining an understanding of internal control needed to plan our audit for the purpose of expressing an opinion on the financial statements. Our testing of

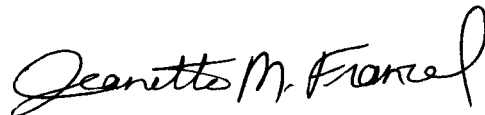
internal controls was limited to selected controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. In addition, we caution that our consideration and testing of internal controls may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Capitol Preservation Fund. We limited our tests of compliance to selected provisions of laws and regulations that we deemed applicable to the Fund's financial statements for the fiscal year ended September 30, 2003. 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.

Commission Comments

We provided a draft of our report to representatives of the Capitol Preservation Commission for their review and comment. The Commission's representatives agreed with the contents of our report.



Jeanette M. Franzel
Director
Financial Management and Assurance

January 31, 2005

Financial Statements

Statements of Financial Position

CAPITOL PRESERVATION FUND STATEMENTS OF FINANCIAL POSITION

As of September 30

	<u>2003</u>	<u>2002</u>
Assets		
Cash	\$ 1,900	\$ 1,766
Accounts receivable		102,405
Pledges receivable (note 3)	3,750,000	
Investments, net (note 4)	67,923,162	61,796,218
Accrued interest receivable	153,036	239,959
Total assets	\$ <u>71,828,098</u>	\$ <u>62,140,348</u>
Liabilities and net assets		
Accounts payable	\$ 37,747	\$ 57,312
Total liabilities	<u>37,747</u>	<u>57,312</u>
Net assets (note 2)		
Unrestricted	6,790,351	31,555,494
Unrestricted - Commission Designated - CVC Related	25,583,499	
Temporarily Restricted - CVC Related	39,416,501	30,527,542
Total net assets	<u>71,790,351</u>	<u>62,083,036</u>
Total liabilities and net assets	\$ <u>71,828,098</u>	\$ <u>62,140,348</u>

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

Statements of Activities

**CAPITOL PRESERVATION FUND
STATEMENTS OF ACTIVITIES**

For the Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
Changes in unrestricted net assets		
Revenues		
Interest (note 5)	\$ 826,191	\$ 1,080,158
Total unrestricted revenues	<u>826,191</u>	<u>1,080,158</u>
Program expenses (note 6)		
Capitol Visitor Center	7,835	355,017
Art, furnishings and historical items		13,850
Total program expenses	<u>7,835</u>	<u>368,867</u>
Other changes in unrestricted net assets		
Receipt of other funds (note 7)		1,086
Increase in unrestricted net assets	<u>818,356</u>	<u>712,377</u>
Increase in temporarily restricted net assets		
Contributions and coin surcharge proceeds	<u>8,888,959</u>	<u>25,527,542</u>
Increase in temporarily restricted net assets	<u>8,888,959</u>	<u>25,527,542</u>
Increase in net assets	<u>9,707,315</u>	<u>26,239,919</u>
Net assets at beginning of year	<u>62,083,036</u>	<u>35,843,117</u>
Net assets at end of year	\$ <u>71,790,351</u>	\$ <u>62,083,036</u>

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

Financial Statements

Statements of Cash Flows

**CAPITOL PRESERVATION FUND
STATEMENTS OF CASH FLOWS**

For the Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Temporarily restricted contributions received	\$ 5,138,959	\$ 22,000,000
Temporarily restricted coin surcharges received	102,405	3,425,137
Receipt of other funds		1,086
Interest received	913,115	1,140,129
Cash paid for program expenses--vendor payments	<u>(27,401)</u>	<u>(579,004)</u>
Net cash provided from operating activities	<u>6,127,078</u>	<u>25,987,348</u>
Cash flows from investing activities		
Purchases of Treasury securities	(201,440,828)	(167,858,579)
Maturities of Treasury securities	<u>195,313,884</u>	<u>141,871,938</u>
Net cash used by investing activities	<u>(6,126,944)</u>	<u>(25,986,641)</u>
Net increase in cash	134	707
Cash at beginning of year	<u>1,766</u>	<u>1,059</u>
Cash at end of year	<u>\$ 1,900</u>	<u>\$ 1,766</u>
Reconciliation of change in net assets to net cash provided from operating activities		
Change in net assets	\$ 9,707,315	\$ 26,239,919
Adjustments to reconcile change in net assets to net cash provided from operating activities		
Decrease (increase) in pledges receivable	(3,750,000)	
Decrease (increase) in accounts receivable	102,405	(102,405)
Decrease (increase) in accrued interest receivable	86,923	59,971
Increase (decrease) in accounts payable	<u>(19,565)</u>	<u>(210,137)</u>
Total adjustments	<u>(3,580,237)</u>	<u>(252,571)</u>
Net cash provided from operating activities	<u>\$ 6,127,078</u>	<u>\$ 25,987,348</u>

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

Notes to Financial Statements

CAPITOL PRESERVATION FUND

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2003, and 2002**

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 (including works of fine art and other property for display) for the United States Capitol and other locations under the control of the Congress. In September 1999, the Commission was given the responsibility, pursuant to Public Law 106-57, for approving the planning, engineering, design, and construction milestones of the Capitol Visitor Center (CVC). The CVC will be a facility, located under the East Plaza of the Capitol that is designed to enhance the experience of visitors to the Capitol through improved visitor orientation and related services, strengthened Capitol security, and integration of the Center's design concepts with the appropriate improvements to the Capitol's East Plaza.

Title VIII of Public Law 100-696 established the Capitol Preservation Fund (the Fund) within the U.S. Treasury to finance improvement, preservation, and acquisition activities of the Commission. In addition, in January 2002, the Commission received authority to transfer amounts from the Fund to the Architect of the Capitol (AOC) for use in planning, engineering, design, or construction of the CVC, under Public Law 107-117. In April 2003, the Commission approved an authorization to the AOC to use \$65 million from the Fund to fund a portion of the AOC's contract for Sequence 2 CVC construction.

The Fund's assets consist of amounts derived from charitable contributions and related pledges receivable, surcharge proceeds from the Secretary of the Treasury (U.S. Mint) arising from the sale of commemorative coins, and interest earned on the invested portions of the Fund's assets.

Fund assets not needed to finance current improvement, preservation, or acquisition projects are invested in interest-bearing obligations of the United States. The Fund's assets have not been used to fund management activities or raise funds.

Since its establishment, the Fund has been designated to receive coin surcharge proceeds from three commemorative coin programs authorized by the Congress.

- Prior to fiscal year 2002, the Fund received surcharge proceeds authorized by the Bicentennial of the United States Congress Commemorative Coin Act and the Bicentennial of the United States Capitol Commemorative Coin Act. These proceeds were received without restriction, deposited into the Fund and have been available to the Commission for use in funding approved improvement, preservation, and acquisition projects.

- In 1999, the Commission was designated to receive surcharge proceeds authorized by the United States Capitol Visitor Center Commemorative Coin Act. Proceeds received from this commemorative coin are restricted to use in the construction, maintenance, and preservation of the CVC. The CVC Commemorative Coin sales program ended in March 2002. All surcharge proceeds from this coin program have been received and deposited in the Fund.

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 body 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 of Representatives Fine Arts Board, or the Joint Committee on the Library) or facilitate the disposal of items.

The AOC, 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 AOC awards contracts and procures goods and services to complete projects approved by the Commission and ensures that the project-related goods and services purchased from vendors are received. Similarly, the Library of Congress (LOC), 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 deposits, disbursements, investments, and management of the 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 general administrative-type support and assistance.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Fund's financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles issued by the Financial Accounting Standards Board that are applicable to not-for-profit organizations. They reflect the receipt and use of the Fund's assets to finance Commission-approved improvement, preservation, and acquisition activities.

Once approved and funded by the Commission, completed improvement, preservation, and acquisition projects are transferred to the AOC 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.

As discussed in note 1, the AOC and LOC, as well as other congressional entities, are required by law to provide support services to the Commission. The costs of these mandated services, which are financed with appropriated funds of the other entities, are not considered operating expenses of the Fund.

B. Investments

The Fund's investments are recorded at cost, net of discounts, which approximates fair market value. The Fund's investments are invested in short-term (3 and 6 month) interest-bearing Treasury obligations.

C. Net Assets

The Fund's net assets are classified into three categories: Unrestricted, Unrestricted Commission Designated-CVC Related, and Temporarily Restricted-CVC Related.

- Unrestricted net assets represent assets available to finance current and future operations that have not been restricted or designated for a specific use. The amounts reported have been received through the receipt of unrestricted contributions, unrestricted surcharge proceeds of certain commemorative coins, and interest earned on invested funds. As of September 30, 2003 and 2002, the Fund's unrestricted net assets were \$6,790,351 and \$31,555,494, respectively.
- Unrestricted Commission-designated net assets related to the CVC represent a portion of unrestricted net assets that have been designated, or set aside, by the Commission, in fiscal year 2003, to partially fund its \$65 million authorization to the AOC for use in funding a portion of the costs of constructing the CVC. The \$25,583,499 in unrestricted net assets designated as CVC related, at September 30, 2003, represents the portion of Fund assets needed to fund the \$65 million authorization to the AOC that was not otherwise funded from the Fund's CVC-related temporarily restricted assets.
- Temporarily restricted net assets related to the CVC represent the net assets received by the Commission that were received subject to the restriction that they be used to build and establish the CVC including supporting the exhibitry and educational experience of its visitors. Through September 30, 2003 and 2002, the Commission received \$39,416,501 and \$30,527,542, respectively, in temporarily restricted net assets related to the CVC. In fiscal year 2003, the Commission committed all of its CVC-related temporarily restricted net assets for use in partially funding the Commission's \$65 million authorization to the AOC. The balance of the authorization has been funded with the unrestricted Commission-designated net assets related to the CVC.

The Fund has not received permanently restricted net assets, which result from donor-imposed restrictions stipulating that the assets be permanently maintained.

D. Accounts Receivable

The Fund's accounts receivable at September 30, 2002, represented commemorative coin surcharge proceeds due from the U.S. Mint. Full payment of the outstanding proceeds was received subsequent to fiscal year-end. As a result, the Fund has not established an allowance for doubtful accounts.

E. Accounts Payable

The Fund's accounts payable consist of amounts owed to vendors for goods and services received but not yet paid.

NOTE 3: PLEDGES RECEIVABLE

In fiscal year 2003, the Fund received pledges totaling \$7.5 million, of which \$3.75 million was received prior to fiscal year end, resulting in \$3.75 million in outstanding pledges receivable at September 30, 2003. The full amount of the pledges receivable, at September 30, 2003, was received subsequent to fiscal year-end. Therefore, the Fund has not established an allowance for uncollectible pledges.

NOTE 4: 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 LOC to invest funds derived from contributions in 3-month Treasury securities and funds derived from coin surcharges in 6-month Treasury securities. Due to the short-term nature of the investments, the cost of investments in conjunction with accrued interest approximates their fair market values. Investments outstanding as of September 30, 2003, and 2002, net of discounts, were \$67,923,162 and \$61,796,218, respectively. Annual investment rates ranged from 0.81 percent to 1.64 percent in fiscal year 2003 and from 1.54 percent to 2.22 percent in fiscal year 2002.

Outstanding Investments as of September 30

	<u>2003</u>	<u>2002</u>
Investments	\$ 68,184,000	\$ 62,214,000
Less: discounts	<u>(260,838)</u>	<u>(417,782)</u>
Investments, net of discounts	<u>\$ 67,923,162</u>	<u>\$ 61,796,218</u>

NOTE 5: REVENUES

Revenue earned from interest on United States Treasury obligations for fiscal years 2003 and 2002 was \$826,191 and \$1,080,158, respectively. As designated by the Commission, interest earned on investments is recognized as an unrestricted net asset.

NOTE 6: PROGRAM EXPENSES

A. Capitol Visitor Center

In October 2000, the Commission approved the expenditure of up to \$700,000 from the Fund for services related to the design and engineering of a proposed tunnel connecting the Thomas Jefferson Building of the Library of Congress to the planned CVC. In April and May 2001, the AOC contracted, on behalf of the Commission, for design and engineering services for the project totaling approximately \$640,000. During fiscal years 2003 and 2002, expenses of \$7,835 and \$355,017, respectively, were incurred for these services.

B. Art, Furnishings, and Historical Items

Commission rules permit the limited use of funds to purchase art, furnishings, or items of historical interest for each body of Congress (see note 1).

Commission members approved the use of \$13,850 in Fund assets for the purchase of antique furnishings for display in Senate offices for fiscal year 2002.

NOTE 7: RECEIPT OF OTHER FUNDS

During fiscal year 2002, the Fund received \$1,086 from the LOC for the residual balance of funds maintained on behalf of the Commission prior to the formal organization of the Commission and creation of the Fund.

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