

Audited Financial Statements
UNITED STATES CAPITOL HISTORICAL
SOCIETY

June 30, 2015

United States Capitol Historical Society

Contents

<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to the financial statements	5 - 9



Independent Auditor's Report

To the Board of Trustees
United States Capitol Historical Society

We have audited the accompanying financial statements of the United States Capitol Historical Society (the Society), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Capitol Historical Society as of June 30, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC
November 17, 2015

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United States Capitol Historical Society

Statements of Financial Position

<i>June 30,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 475,689	\$ 685,590
Investments	2,461,007	2,400,502
Accounts receivable - net of allowance for doubtful accounts of \$2,815	82,748	33,456
Inventory	716,447	730,307
Prepaid expenses and other assets	33,657	35,214
Property and equipment, net	202,251	208,418
Total assets	\$ 3,971,799	\$ 4,093,487
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 53,083	\$ 66,627
Accrued expenses	135,499	185,825
Total liabilities	188,582	252,452
Net assets		
Unrestricted	3,318,262	3,361,445
Temporarily restricted	464,955	479,590
Total net assets	3,783,217	3,841,035
Total liabilities and net assets	\$ 3,971,799	\$ 4,093,487

See notes to the financial statements.

United States Capitol Historical Society

Statements of Activities

<i>Year Ended June 30,</i>	2015	2014
Unrestricted activities		
Revenue		
Sales of merchandise	\$ 1,235,525	\$ 1,274,433
Less: retail operations expenses	(973,571)	(987,117)
Net profit on sales	261,954	287,316
Other revenue		
Contributions and grants	1,448,582	1,454,840
Investment income	50,832	254,309
Royalties and other revenue	2,287	24,327
Net assets released from restrictions	729,663	412,039
Total unrestricted revenue	2,493,318	2,432,831
Expense		
Program services		
Educational events and publications	1,808,523	1,468,655
Membership	207,355	205,796
Total program services	2,015,878	1,674,451
Supporting services		
General and administrative	445,157	404,350
Fundraising	75,466	76,722
Total supporting services	520,623	481,072
Total expense	2,536,501	2,155,523
Change in unrestricted net assets	(43,183)	277,308
Temporarily restricted activities		
Contributions	715,028	495,733
Net assets released from restrictions	(729,663)	(412,039)
Change in temporarily restricted net assets	(14,635)	83,694
Change in net assets	(57,818)	361,002
Net assets, beginning of year	3,841,035	3,480,033
Net assets, end of year	\$ 3,783,217	\$ 3,841,035

See notes to the financial statements.

United States Capitol Historical Society

Statements of Cash Flows

<i>Year Ended June 30,</i>	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (57,818)	\$ 361,002
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	22,200	24,825
Bad debt expense	6,957	-
Net loss (gain) on investments	70,381	(171,741)
Write-off of obsolete inventory	78,185	-
Changes in assets and liabilities:		
Accounts receivable	(56,249)	36,701
Inventory	(64,325)	27,347
Prepaid expenses and other assets	1,557	8,736
Accounts payable	(13,544)	37,702
Accrued expenses	(50,326)	14,657
Total adjustments	(5,164)	(21,773)
Net cash (used in) provided by operating activities	(62,982)	339,229
Cash flows from investing activities		
Purchases of investments	(619,283)	(417,173)
Proceeds from sale of investments	488,397	375,087
Purchases of property and equipment	(16,033)	(31,610)
Net cash used in investing activities	(146,919)	(73,696)
Net (decrease) increase in cash and cash equivalents	(209,901)	265,533
Cash and cash equivalents, beginning of year	685,590	420,057
Cash and cash equivalents, end of year	\$ 475,689	\$ 685,590

See notes to the financial statements.

United States Capitol Historical Society

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The United States Capitol Historical Society (the Society) is a non-profit organization, incorporated under the laws of the District of Columbia, which operates under Congressional Charter dated October 20, 1978, giving it the authority to preserve and improve the Capitol; to research, publish, and create items, medals, and material of historical interest; and to cooperate with Congressional committees and federal agencies in the work of the Society and the distribution of its products.

Income tax status: The Society is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service (IRS) as other than a private foundation.

Basis of accounting: The Society prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Society considers all investments with a maturity of three months or less at the time of purchase to be cash equivalents with the exception of money market funds held for investment purposes.

Accounts receivable: Accounts receivable consists primarily of amounts owed from customers. Accounts receivable are presented at the gross amount due to the Society, less an allowance for uncollectible accounts. The Society periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances for which collection is deemed doubtful are charged to bad debt expense and an allowance is recorded.

Inventory: The Society's inventory consists of calendars, publications, and other items for sale, which stimulate interest in the history of the Congress and the United States Capitol. Inventory is recorded at the lower of cost or market value and is valued using the first in, first out method.

Net assets: The following is a summary of the Society's net assets and restrictions thereon:

Unrestricted: Unrestricted net assets account for the general operations of the Society.

Temporarily restricted: Temporarily restricted net assets consist principally of accumulated contributions for Capitol decorations, portraits, book projects, and various youth and scholastic programs. Depending on the terms of the original agreements, unused contributions restricted for such portraits are released from restriction and are transferred to either the Cox Memorial fund restricted for Capitol decorations or to unrestricted net assets.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires.

United States Capitol Historical Society

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional allocation of expense: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, salary and other joint costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through November 17, 2015, which is the date the financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Society maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Society.

Market value risk: The Society also invests funds in a professionally managed portfolio. Such investments are exposed to market and credit risks and may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, the Society uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting Society's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of input levels used to determine fair value, measured on a recurring basis, of the following assets at June 30, 2015:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments, at fair value				
Fixed income mutual funds	\$ 1,139,756	\$ 1,139,756	\$ -	\$ -
Equity mutual funds	1,060,191	1,060,191		
Equity securities	43,574	43,574		
Preferred equity securities	24,910	24,910		
Exchange traded & closed end mutual funds	14,530	14,530		
	2,282,961	\$ 2,282,961	\$ -	\$ -
Investments, at cost				
Money market funds*	178,046			
	\$ 2,461,007			

United States Capitol Historical Society

Notes to the Financial Statements

C. INVESTMENTS - CONTINUED

The following is a summary of input levels used to determine fair value, measured on a recurring basis, of the following assets at June 30, 2014:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments, at fair value				
Fixed income mutual funds	\$ 1,147,321	\$ 1,147,321	\$ -	\$ -
Equity mutual funds	993,168	993,168		
Exchange traded & closed end mutual funds	42,290	42,290		
Equity securities	38,095	38,095		
	2,220,874	\$ 2,220,874	\$ -	\$ -
Investments, at cost				
Money market funds*	179,628			
	\$ 2,400,502			

* Money market funds are not subject to fair value measurement as they are recorded at cost.

The following is a summary of investment income for the years ended June 30,:

	2015	2014
Interest and dividends	\$ 121,213	\$ 82,568
Net (loss) gain on investments	(70,381)	171,741
Total investment income	\$ 50,832	\$ 254,309

D. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$500 are recorded at cost. Using the straight-line method, depreciation or amortization of property and equipment is recorded over their estimated useful lives ranging from five to thirty-nine years. Property and equipment consisted of the following at June 30,:

	2015	2014
Warehouse	\$ 208,787	\$ 208,787
Computer equipment	191,913	189,969
Furniture	131,395	131,395
Office equipment	112,326	99,599
Leasehold improvements	38,448	38,448
Vehicle	24,945	24,945
Website development costs	14,100	14,100
Software	1,362	-
	723,276	707,243
Less accumulated depreciation	(521,025)	(498,825)
Property and equipment, net	\$ 202,251	\$ 208,418

United States Capitol Historical Society

Notes to the Financial Statements

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets and related activity consisted of the following as of June 30,:

	Net Assets July 1, 2014	Revenue	Restriction Releases	Net Assets June 30, 2015
Program Funds:				
APA - Curriculum	\$ -	\$ 1,350	\$ -	\$ 1,350
APA - Oral History	331	300	(631)	-
Armed Services Dinner	1,000		(1,000)	-
Brown Internship		2,828		2,828
Carter Book	1,500	1,000		2,500
Constitution Tours	42,912	76,200	(75,380)	43,732
Cox Fund	130,251			130,251
Essay Contest	10,727		(3,346)	7,381
Masons Programs	6,062			6,062
Pritchard	36,641			36,641
Schwengel Book	10,000			10,000
Symposium		25,000		25,000
Tree Brochure	2,000			2,000
United Airlines for Guam	-			-
UPS (Transport Slavery Exhibit)	658		(213)	445
Youth Forum		4,000		4,000
Total Program Funds	242,082	110,678	(80,570)	272,190
Portrait Funds	237,508	604,350	(649,093)	192,765
Temporarily Restricted Net Assets	\$ 479,590	\$ 715,028	\$ (729,663)	\$ 464,955

	Net Assets July 1, 2013	Revenue	Restriction Releases	Net Assets June 30, 2014
Program Funds:				
APA - Oral History	\$ -	\$ 7,143	\$ (6,812)	\$ 331
Armed Services Dinner		1,000		1,000
Carter Book		1,500		1,500
Constitution Tours	41,871	81,000	(79,959)	42,912
Cox Fund	130,251			130,251
Essay Contest		20,000	(9,273)	10,727
Masons Programs	6,062			6,062
Pritchard	36,641			36,641
Schwengel Book	10,000			10,000
Tree Brochure	2,000			2,000
United Airlines for Guam	-			-
UPS (Transport Slavery Exhibit)	658			658
Youth Forum	-			-
Total Program Funds	227,483	110,643	(96,044)	242,082
Portrait Funds	168,413	385,090	(315,995)	237,508
Temporarily Restricted Net Assets	\$ 395,896	\$ 495,733	\$ (412,039)	\$ 479,590

United States Capitol Historical Society

Notes to the Financial Statements

F. RETIREMENT PLAN

The Society maintains a 403(b) retirement plan for all employees who have completed at least one year of service and who have attained at least 18 years of age. The plan is currently funded and requires biweekly contributions equal to 5% of the participating employees' compensation. Retirement expense for the years ended June 30, 2015 and 2014, totaled \$52,695 and \$53,911, respectively.

G. COMMITMENT

The Society has a non-cancelable operating lease for office space expiring in March 2020. The lease contains an annual escalation clause, which adjusts base annual rentals. Rent expense for the years ended June 30, 2015 and 2014 totaled \$249,618 and \$253,775, respectively. The remaining lease payments under the office space lease are as follows:

Year Ending June 30,	Amount
2016	\$ 249,230
2017	251,722
2018	254,239
2019	256,781
2020	194,047
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	\$ 1,206,019