

Audited Financial Statements
UNITED STATES CAPITOL HISTORICAL
SOCIETY

June 30, 2017

United States Capitol Historical Society

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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United States Capitol Historical Society

Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 581,136	\$ 417,546
Investments	2,614,860	2,458,402
Accounts receivable - net of allowance for doubtful accounts of \$7,640 and \$2,815, respectively	53,260	121,174
Inventory	466,228	480,989
Prepaid expenses and other assets	36,231	34,756
Property and equipment, net	218,113	210,724
Total assets	\$ 3,969,828	\$ 3,723,591
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 39,852	\$ 43,144
Accrued expenses	122,426	103,847
Deferred rent	7,564	5,656
Total liabilities	169,842	152,647
Net assets		
Unrestricted	3,173,344	3,067,654
Temporarily restricted	626,642	503,290
Total net assets	3,799,986	3,570,944
Total liabilities and net assets	\$ 3,969,828	\$ 3,723,591

See notes to the financial statements.

United States Capitol Historical Society

Statements of Activities

<i>Year Ended June 30,</i>	2017	2016
Unrestricted activities		
Revenue		
Sales of merchandise	\$ 1,247,993	\$ 1,263,172
Less: retail operations expenses	(1,049,294)	(952,369)
Less: obsolete inventory expense	(48,523)	(299,810)
Net profit on sales	150,176	10,993
Other revenue		
Contributions and grants	1,474,747	1,474,530
Investment income	242,725	35,903
Royalties and other revenue	3,853	27,340
Net assets released from restrictions	385,231	254,865
Transfers to temporarily restricted net assets	(2,500)	(10,000)
Total unrestricted revenue	2,254,232	1,793,631
Expense		
Program services		
Educational events and publications	1,434,493	1,361,664
Membership	251,642	223,348
Total program services	1,686,135	1,585,012
Supporting services		
General and administrative	380,106	376,752
Fundraising	82,301	82,475
Total supporting services	462,407	459,227
Total expense	2,148,542	2,044,239
Change in unrestricted net assets	105,690	(250,608)
Temporarily restricted activities		
Contributions	506,083	283,200
Net assets released from restrictions	(385,231)	(254,865)
Transfers from unrestricted net assets	2,500	10,000
Change in temporarily restricted net assets	123,352	38,335
Change in net assets	229,042	(212,273)
Net assets, beginning of year	3,570,944	3,783,217
Net assets, end of year	\$ 3,799,986	\$ 3,570,944

See notes to the financial statements.

United States Capitol Historical Society

Statements of Cash Flows

<i>Year Ended June 30,</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 229,042	\$ (212,273)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	24,343	19,315
Bad debt expense	18,268	1,451
Net (gain) loss on investments	(149,611)	63,225
Write-off of obsolete inventory	48,523	299,810
Changes in assets and liabilities:		
Accounts receivable	49,646	(39,877)
Inventory	(33,762)	(64,352)
Prepaid expenses and other assets	(1,475)	(1,099)
Accounts payable	(3,292)	(9,939)
Accrued expenses	18,579	(31,652)
Deferred rent	1,908	5,656
Total adjustments	(26,873)	242,538
Net cash provided by operating activities	202,169	30,265
Cash flows from investing activities		
Purchases of investments	(1,869,458)	(1,148,071)
Proceeds from sale of investments	1,862,611	1,087,451
Purchases of property and equipment	(31,732)	(27,788)
Net cash used in investing activities	(38,579)	(88,408)
Net increase (decrease) in cash and cash equivalents	163,590	(58,143)
Cash and cash equivalents, beginning of year	417,546	475,689
Cash and cash equivalents, end of year	\$ 581,136	\$ 417,546

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 January 23, 2018, 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, 2017:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments, at fair value				
Equity mutual funds	\$ 1,360,111	\$ 1,360,111	\$ -	\$ -
Fixed income mutual funds	957,866	957,866		
Preferred equity securities	108,410	108,410		
Equity securities	66,850	66,850		
	2,493,237	\$ 2,493,237	\$ -	\$ -
Investments, at cost				
Money market funds*	121,623			
	\$ 2,614,860			

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, 2016:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments, at fair value				
Equity mutual funds	\$ 986,528	\$ 986,528	\$ -	\$ -
Fixed income mutual funds	922,986	922,986		
Preferred equity securities	213,235	213,235		
Equity securities	50,614	50,614		
	2,173,363	\$ 2,173,363	\$ -	\$ -
Investments, at cost				
Money market funds*	285,039			
	\$ 2,458,402			

* 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,:

	2017	2016
Interest and dividends	\$ 93,114	\$ 99,128
Net gain (loss) on investments	149,611	(63,225)
Total investment income	\$ 242,725	\$ 35,903

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,:

	2017	2016
Warehouse	\$ 208,787	\$ 208,787
Computer equipment	202,733	192,602
Furniture	131,395	131,395
Office equipment	118,976	118,076
Website development costs	48,709	35,449
Leasehold improvements	38,448	38,448
Vehicle	24,945	24,945
Software	4,517	1,362
	778,510	751,064
Less accumulated depreciation	(560,397)	(540,340)
Property and equipment, net	\$ 218,113	\$ 210,724

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, 2016	Transfers	Revenue	Restriction Releases	Net Assets June 30, 2017
Program Funds:					
APA - Curriculum	\$ 1,350	\$ -	\$ -	\$ -	\$ 1,350
Brown Internship	2,828				2,828
Capitol Fellowship	11,350				11,350
Capitol Stories			25,000		25,000
Carter Book	2,500		120,150		122,650
Constitution Tours	39,440		73,950	(67,220)	46,170
Cox Fund	130,251				130,251
Essay Contest	7,381				7,381
Masons Programs	6,062				6,062
Pritchard	36,641				36,641
Resident Scholar	600		3,900	(2,376)	2,124
Schwengel Book	10,000				10,000
Symposium	25,000				25,000
Tree Brochure	2,000				2,000
UPS (Transport Slavery Exhibit)	445				445
Women's Tour	15,000				15,000
Youth Forum	4,000				4,000
Total Program Funds	294,848	-	223,000	(69,596)	448,252
Total Portrait Funds	208,442	2,500	283,083	(315,635)	178,390
Temporarily Restricted Net Assets	\$ 503,290	\$ 2,500	\$ 506,083	\$ (385,231)	\$ 626,642

	Net Assets July 1, 2015	Transfers	Revenue	Restriction Releases	Net Assets June 30, 2016
Program Funds:					
APA - Curriculum	\$ 1,350	\$ -	\$ -	\$ -	\$ 1,350
Brown Internship	2,828				2,828
Capitol Fellowship	-		11,350		11,350
Carter Book	2,500				2,500
Constitution Tours	43,732		68,000	(72,292)	39,440
Cox Fund	130,251				130,251
Essay Contest	7,381				7,381
Masons Programs	6,062				6,062
Pritchard	36,641				36,641
Resident Scholar	-		600		600
Schwengel Book	10,000				10,000
Symposium	25,000				25,000
Tree Brochure	2,000				2,000
UPS (Transport Slavery Exhibit)	445				445
Women's Tour	-	10,000	5,000		15,000
Youth Forum	4,000				4,000
Total Program Funds	272,190	10,000	84,950	(72,292)	294,848
Portrait Funds	192,765	-	198,250	(182,573)	208,442
Temporarily Restricted Net Assets	\$ 464,955	\$ 10,000	\$ 283,200	\$ (254,865)	\$ 503,290

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, 2017 and 2016, totaled \$51,372 and \$44,248, 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, 2017 and 2016 totaled \$253,630 and \$254,886, respectively. The remaining lease payments under the office space lease are as follows:

Year Ending June 30,	Amount
2018	\$ 254,239
2019	256,781
2020	194,047
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	\$ 705,067