

Audited Financial Statements
UNITED STATES CAPITOL HISTORICAL
SOCIETY

June 30, 2018

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, 2018 and 2017, 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, 2018 and 2017, 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
February 8, 2019

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United States Capitol Historical Society

Statements of Financial Position

| June 30, | 2018 | 2017 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 652,017 | \$ 581,136 |
| Investments | 2,470,514 | 2,614,860 |
| Accounts receivable - net of allowance for doubtful accounts of \$15,449 and \$7,640, respectively | 236,639 | 53,260 |
| Inventory | 422,660 | 466,228 |
| Prepaid expenses and other assets | 26,485 | 36,231 |
| Property and equipment, net | 209,234 | 218,113 |
| Total assets | \$ 4,017,549 | \$ 3,969,828 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 29,790 | \$ 39,852 |
| Accrued expenses | 105,603 | 122,426 |
| Deferred rent | 6,955 | 7,564 |
| Total liabilities | 142,348 | 169,842 |
| Net assets | | |
| Unrestricted | 3,239,795 | 3,173,344 |
| Temporarily restricted | 635,406 | 626,642 |
| Total net assets | 3,875,201 | 3,799,986 |
| Total liabilities and net assets | \$ 4,017,549 | \$ 3,969,828 |

See notes to the financial statements.

United States Capitol Historical Society

Statements of Activities

| <i>Year Ended June 30,</i> | 2018 | 2017 |
|--|---------------------|---------------------|
| Unrestricted activities | | |
| Revenue | | |
| Sales of merchandise | \$ 1,348,656 | \$ 1,247,993 |
| Less: retail operations expenses | (1,073,368) | (1,049,294) |
| Less: obsolete inventory expense | (53,078) | (48,523) |
| Net profit on sales | 222,210 | 150,176 |
| Other revenue | | |
| Contributions and grants | 1,535,911 | 1,474,747 |
| Investment income | 151,261 | 242,725 |
| Royalties and other revenue | 1,591 | 3,853 |
| Net assets released from restrictions | 525,216 | 385,231 |
| Transfers to temporarily restricted net assets | - | (2,500) |
| Total unrestricted revenue | 2,436,189 | 2,254,232 |
| Expense | | |
| Program services | | |
| Educational events and publications | 1,597,137 | 1,434,493 |
| Membership | 289,758 | 251,642 |
| Total program services | 1,886,895 | 1,686,135 |
| Supporting services | | |
| General and administrative | 384,230 | 380,106 |
| Fundraising | 98,613 | 82,301 |
| Total supporting services | 482,843 | 462,407 |
| Total expense | 2,369,738 | 2,148,542 |
| Change in unrestricted net assets | 66,451 | 105,690 |
| Temporarily restricted activities | | |
| Contributions | 533,980 | 506,083 |
| Net assets released from restrictions | (525,216) | (385,231) |
| Transfers from unrestricted net assets | - | 2,500 |
| Change in temporarily restricted net assets | 8,764 | 123,352 |
| Change in net assets | 75,215 | 229,042 |
| Net assets, beginning of year | 3,799,986 | 3,570,944 |
| Net assets, end of year | \$ 3,875,201 | \$ 3,799,986 |

See notes to the financial statements.

United States Capitol Historical Society

Statements of Cash Flows

| Year Ended June 30, | 2018 | 2017 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 75,215 | \$ 229,042 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 24,604 | 22,618 |
| Bad debt expense | 7,844 | 1,451 |
| Net gain on investments | (26,936) | (149,611) |
| Write-off of obsolete inventory | 53,078 | 48,523 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (191,223) | 66,463 |
| Inventory | (9,510) | (33,762) |
| Prepaid expenses and other assets | 9,746 | (1,475) |
| Accounts payable | (10,062) | (3,292) |
| Accrued expenses | (16,823) | 18,579 |
| Deferred rent | (609) | 1,908 |
| Total adjustments | (159,891) | (28,598) |
| Net cash (used in) provided by operating activities | (84,676) | 200,444 |
| Cash flows from investing activities | | |
| Purchases of investments | (1,691,329) | (1,094,298) |
| Proceeds from sale of investments | 1,862,611 | 1,087,451 |
| Purchases of property and equipment | (15,725) | (30,007) |
| Net cash provided by (used in) investing activities | 155,557 | (36,854) |
| Net increase in cash and cash equivalents | 70,881 | 163,590 |
| Cash and cash equivalents, beginning of year | 581,136 | 417,546 |
| Cash and cash equivalents, end of year | \$ 652,017 | \$ 581,136 |

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 February 8, 2019, 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, 2018:

| | Total | Fair Value | | |
|-----------------------------|---------------------|---------------------|-------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Investments, at fair value | | | | |
| Equity mutual funds | \$ 1,339,332 | \$ 1,339,332 | \$ - | \$ - |
| Fixed income mutual funds | 985,986 | 985,986 | | |
| Preferred equity securities | 52,410 | 52,410 | | |
| Equity securities | 82,545 | 82,545 | | |
| | <u>2,460,273</u> | <u>\$ 2,460,273</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments, at cost | | | | |
| Money market funds* | <u>10,241</u> | | | |
| | <u>\$ 2,470,514</u> | | | |

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, 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 | | | |

* 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,:

| | 2018 | 2017 |
|-------------------------|-------------------|-------------------|
| Interest and dividends | \$ 124,325 | \$ 93,114 |
| Net gain on investments | 26,936 | 149,611 |
| Total investment income | \$ 151,261 | \$ 242,725 |

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,:

| | 2018 | 2017 |
|-------------------------------|-------------------|-------------------|
| Warehouse | \$ 208,787 | \$ 208,787 |
| Computer equipment | 207,918 | 202,733 |
| Furniture | 131,395 | 131,395 |
| Office equipment | 120,704 | 118,976 |
| Website development costs | 48,709 | 48,709 |
| Leasehold improvements | 38,448 | 38,448 |
| Vehicle | 24,945 | 24,945 |
| Software | 13,329 | 4,517 |
| | 794,235 | 778,510 |
| Less accumulated depreciation | (585,001) | (560,397) |
| Property and equipment, net | \$ 209,234 | \$ 218,113 |

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, 2017 | Transfers | Revenue | Restriction Releases | Net Assets June 30, 2018 |
|-----------------------------------|-------------------------------|-----------|------------|-------------------------|--------------------------------|
| 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 | 122,650 | | - | (122,650) | - |
| Constitution Tours | 46,170 | | 76,000 | (67,782) | 54,388 |
| Cox Fund | 130,251 | | | | 130,251 |
| Essay Contest | 7,381 | | | | 7,381 |
| Masons Programs | 6,062 | | | | 6,062 |
| Performing Arts Fellowship | - | | 5,000 | - | 5,000 |
| Pritchard | 36,641 | | | | 36,641 |
| Resident Scholar | 2,124 | | | | 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 | 448,252 | - | 81,000 | (190,432) | 338,820 |
| Portrait Funds | 178,390 | - | 452,980 | (334,784) | 296,586 |
| Temporarily Restricted Net Assets | \$ 626,642 | \$ - | \$ 533,980 | \$ (525,216) | \$ 635,406 |

| | 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 |
| 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 |

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, 2018 and 2017, totaled \$57,445 and \$51,372, 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, 2018 and 2017 totaled \$254,239 and \$253,630, respectively. The remaining lease payments under the office space lease are as follows:

| Year Ending June 30, | Amount |
|----------------------|-------------------|
| 2019 | \$ 256,781 |
| 2020 | <u>194,047</u> |
| | <u>\$ 450,828</u> |