

Audited Financial Statements
UNITED STATES CAPITOL HISTORICAL
SOCIETY

June 30, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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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Adoption of Accounting Standards Update 2016-14

As described in Note A to the financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). As required by the FASB, the Society adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and functional expense. There was no change in the Society's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Tate & Tryon". The signature is written in a cursive, flowing style.

Washington, DC
February 9, 2020

United States Capitol Historical Society

Statements of Financial Position

June 30,	2019	2018
Assets		
Cash and cash equivalents	\$ 512,320	\$ 652,017
Investments	2,416,256	2,470,514
Accounts receivable - net of allowance for doubtful accounts of \$15,449	68,989	236,639
Inventory	446,820	422,660
Prepaid expenses and other assets	28,918	26,485
Property and equipment, net	192,099	209,234
Total assets	\$ 3,665,402	\$ 4,017,549
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 92,965	\$ 29,790
Accrued expenses	124,134	105,603
Deferred rent	3,804	6,955
Total liabilities	220,903	142,348
Net assets		
Without donor restrictions	2,792,017	3,239,795
With donor restrictions	652,482	635,406
Total net assets	3,444,499	3,875,201
Total liabilities and net assets	\$ 3,665,402	\$ 4,017,549

See notes to the financial statements.

United States Capitol Historical Society

Statements of Activities

<i>Year Ended June 30,</i>	2019	2018
Activities without donor restrictions		
Revenue		
Sales of merchandise	\$ 1,166,876	\$ 1,348,656
Less: retail operations expenses	(1,029,099)	(1,060,072)
Less: obsolete inventory expense	(18,707)	(53,078)
Net profit on sales	119,070	235,506
Other revenue		
Contributions and grants	1,321,834	1,535,911
Investment income, net of fees	140,983	132,029
Royalties and other revenue	6,048	1,591
Releases from donor restrictions	605,217	525,216
Total revenue without donor restrictions	2,193,152	2,430,253
Expense		
Program services		
Educational events and publications	1,717,855	1,589,394
Membership	131,401	69,116
Total program services	1,849,256	1,658,510
Supporting services		
General and administrative	414,280	354,057
Fundraising	377,394	351,235
Total supporting services	791,674	705,292
Total expense	2,640,930	2,363,802
Change in net assets without donor restrictions	(447,778)	66,451
Activities with donor restrictions		
Contributions	622,293	533,980
Releases from donor restrictions	(605,217)	(525,216)
Change in net assets with donor restrictions	17,076	8,764
Change in net assets	(430,702)	75,215
Net assets, beginning of year	3,875,201	3,799,986
Net assets, end of year	\$ 3,444,499	\$ 3,875,201

See notes to the financial statements.

United States Capitol Historical Society

Statements of Cash Flows

<i>Year Ended June 30,</i>	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (430,702)	\$ 75,215
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	24,346	24,604
Bad debt expense	1,134	7,844
Net gain on investments	(31,980)	(26,936)
Write-off of obsolete inventory	18,707	53,078
Changes in assets and liabilities:		
Accounts receivable	166,516	(191,223)
Inventory	(42,867)	(9,510)
Prepaid expenses and other assets	(2,433)	9,746
Accounts payable	63,175	(10,062)
Accrued expenses	18,531	(16,823)
Deferred rent	(3,151)	(609)
Total adjustments	211,978	(159,891)
Net cash used in operating activities	(218,724)	(84,676)
Cash flows from investing activities		
Purchases of investments	(286,803)	(1,691,329)
Proceeds from sale of investments	373,041	1,862,611
Purchases of property and equipment	(7,211)	(15,725)
Net cash provided by investing activities	79,027	155,557
Net (decrease) increase in cash and cash equivalents	(139,697)	70,881
Cash and cash equivalents, beginning of year	652,017	581,136
Cash and cash equivalents, end of year	\$ 512,320	\$ 652,017

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 cash and 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:

Without donor restrictions: Net assets without donor restrictions account for the general operations of the Society.

With donor restrictions: Net assets with donor restrictions 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 net assets without donor restrictions.

Contributions: Contributions are recorded as support without or with donor restrictions depending upon the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in net assets with donor restrictions and then reclassified to net assets without donor restrictions when the restriction expires.

United States Capitol Historical Society

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New accounting principle: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The Society adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and functional expense.

Reclassifications: Certain amounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets. Revenue and expense lines from the 2018 financial statements have been reclassified as follows:

	Previously Reported	Reclassification	Currently Reported
Revenue			
Less: Retail operations expenses	\$ (1,073,368)	\$ 13,296	\$ (1,060,072)
Investment income	151,261	(19,232)	132,029
	<u>\$ (922,107)</u>	<u>\$ (5,936)</u>	<u>\$ (928,043)</u>
Expense			
Program services			
Educational events and publications	\$ 1,597,137	\$ (7,743)	\$ 1,589,394
Membership	289,758	(220,642)	69,116
Total program services	<u>1,886,895</u>	<u>(228,385)</u>	<u>1,658,510</u>
Supporting services			
General and administrative	384,230	(30,173)	354,057
Fundraising	98,613	252,622	351,235
Total supporting services	<u>482,843</u>	<u>222,449</u>	<u>705,292</u>
Total expense	\$ 2,369,738	\$ (5,936)	\$ 2,363,802

Subsequent events: Subsequent events have been evaluated through February 9, 2020, 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.

United States Capitol Historical Society

Notes to the Financial Statements

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,:

2019	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments, at fair value				
Equity mutual funds	\$ 1,157,217	\$ 1,157,217	\$ -	\$ -
Fixed income mutual funds	949,890	949,890		
	2,107,107	\$ 2,107,107	\$ -	\$ -
Investments, at cost				
Money market funds*	309,149			
	\$ 2,416,256			

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		
	2,460,273	\$ 2,460,273	\$ -	\$ -
Investments, at cost				
Money market funds*	10,241			
	\$ 2,470,514			

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

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

	2019	2018
Interest and dividends	\$ 127,889	\$ 124,325
Net gain on investments	31,980	26,936
Investment fees	(18,886)	(19,232)
Investment income, net of fees	\$ 140,983	\$ 132,029

United States Capitol Historical Society

Notes to the Financial Statements

D. LIQUIDITY

The Society's liquidity management protocol includes the goal to maintain sufficient liquid financial assets in order to readily meet general expenditures and obligations as they become due. Typically, cash held in excess of immediate liquidity needs is invested in accordance with the investment policy. Management periodically reviews liquid assets and increases or decreases cash as appropriate.

Financial assets available for general expenditure within one year are as follows at June 30, 2019:

Financial assets		
Cash and cash equivalents	\$	512,320
Investments		2,416,256
Accounts receivable - net of allowance for doubtful accounts of \$15,449		<u>68,989</u>
Total financial assets at year-end		2,997,565
Less those unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions		<u>(652,482)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>2,345,083</u>

E. 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,:

	2019	2018
Warehouse	\$ 208,787	\$ 208,787
Computer equipment	212,377	207,918
Furniture	131,641	131,395
Office equipment	120,704	120,704
Website development costs	48,709	48,709
Leasehold improvements	38,448	38,448
Vehicle	24,945	24,945
Software	15,836	13,329
	<u>801,447</u>	<u>794,235</u>
Less accumulated depreciation	<u>(609,348)</u>	<u>(585,001)</u>
Property and equipment, net	<u>\$ 192,099</u>	<u>\$ 209,234</u>

United States Capitol Historical Society

Notes to the Financial Statements

F. NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction and related activity consisted of the following as of June 30,:

	Net Assets July 1, 2018	Transfers	Revenue	Restriction Releases	Net Assets June 30, 2019
Program funds:					
APA - Curriculum	\$ 1,350	\$ -	\$ -	\$ -	\$ 1,350
Brown Internship	2,828			(2,500)	328
Capitol Fellowship	11,350				11,350
Capitol Stories	25,000		25,000	(6,489)	43,511
Constitution Tours	54,388		55,000	(109,149)	239
Cox Fund	130,251				130,251
Essay Contest	7,381				7,381
Masons Programs	6,062				6,062
National Statutory Hall Collection Book	-		50,000	(20,400)	29,600
NBC Learning	-		50,000	(25,000)	25,000
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	338,820	-	180,000	(163,538)	355,282
Portrait funds	296,586	-	442,293	(441,679)	297,200
Net assets with donor restrictions	\$ 635,406	\$ -	\$ 622,293	\$ (605,217)	\$ 652,482

	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
Net assets with donor restrictions	\$ 626,642	\$ -	\$ 533,980	\$ (525,216)	\$ 635,406

United States Capitol Historical Society

Notes to the Financial Statements

G. FUNCTIONAL EXPENSES

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.

The Society charges expenses directly incurred for a specific function directly to the appropriate program or supporting service category. The direct costs are those that can be specifically identified as being incurred for the activities of that program or supporting service.

Other costs are incurred by the Society that indirectly benefit more than one program or supporting service. Indirect costs are allocated among program and supporting services on a reasonable basis that is consistently applied. In particular, salaries and benefits are allocated based on estimated employee effort. Professional fees, rent and utilities, and office operations are allocated based on the relative proportion of total expenses by function.

Functional costs consisted of the following for the years ended June 30,:

2019	Program Services		Supporting Services		Total
	Educational events and publications	Membership	General and administrative	Fundraising	
Salaries and benefits	\$ 628,845	\$ 66,322	\$ 255,737	\$ 275,153	\$ 1,226,057
Professional fees	374,252	10,908	77,485	39,770	502,415
Portrait expenses	450,746	-	-	-	450,746
Rent and utilities	120,776	12,418	31,247	35,665	200,106
Office operations	54,789	6,740	44,050	22,873	128,452
Event expenses	34,872	20,848	3,063	102	58,885
Publication expenses	35,266	13,125	591	1,264	50,246
Travel expenses	13,687	-	-	1,013	14,700
Other expenses	4,622	1,040	2,107	1,554	9,323
	\$ 1,717,855	\$ 131,401	\$ 414,280	\$ 377,394	\$ 2,640,930

2018	Program Services		Supporting Services		Total
	Educational events and publications	Membership	General and administrative	Fundraising	
Salaries and benefits	\$ 753,684	\$ -	\$ 251,852	\$ 240,803	\$ 1,246,339
Portrait expenses	301,881	-	-	-	301,881
Professional fees	260,207	3,480	8,598	14,981	287,266
Rent and utilities	122,514	-	36,631	46,285	205,430
Office operations	51,495	5,693	50,969	33,900	142,057
Event expenses	37,157	29,300	4,952	7,120	78,529
Publication expenses	23,200	17,903	-	4,386	45,489
Other expenses	20,294	12,740	1,055	979	35,068
Travel expenses	18,962	-	-	2,781	21,743
	\$ 1,589,394	\$ 69,116	\$ 354,057	\$ 351,235	\$ 2,363,802

United States Capitol Historical Society

Notes to the Financial Statements

H. 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, 2019 and 2018, totaled \$59,746 and \$57,445, respectively.

I. COMMITMENTS

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, 2019 and 2018 totaled \$263,362 and \$254,239, respectively. The remaining lease payments under the office space lease total \$194,027 for the year ended June 30, 2020.

The Society has an employment agreement with its President and CEO. Under the terms of the agreement, should the Society terminate employment without cause, the Society would be obligated to pay severance.