

**Architect of the Capitol
Office of Inspector General**



**AUDIT OF FISCAL YEAR 2017
FINANCIAL STATEMENTS**

**OIG Report: 2018-0004-AUD-R
Issued November 16, 2017**

Architect of the Capitol Office of Inspector General

AUDIT OF FISCAL YEAR 2017 FINANCIAL STATEMENTS

OIG Report 2018-0004-AUD-R

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**Architect of the Capitol
Office of Inspector General**

**AUDIT OF
FISCAL YEAR 2017 FINANCIAL STATEMENTS**

OIG Report 2018-0004-AUD-R

SECTION I

OIG Transmittal Memorandum



Office of Inspector General
Fairchild Bldg.
499 S. Capitol St., SW, Suite 518
Washington, D.C. 20515
202.593.1948
www.aoc.gov

United States Government

MEMORANDUM

DATE: November 16, 2017

TO: Stephen T. Ayers, FAIA, LEED AP, Architect of the Capitol

FROM: Christopher P. Failla *C. Failla*
Inspector General

SUBJECT: Audit of Fiscal Year 2017 Financial Statements Reports, 2018-00040-AUD-R

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney), P.C. to audit the financial statements of the Architect of the Capitol (AOC) as of and for the year ending September 30, 2017. The contract required that the audit be conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Kearney's opinion on the financial statements is unmodified. I commend the AOC for continuing to maintain this significant accomplishment.

In connection with the audit, we reviewed Kearney's reports and related documentation and met with its representatives. The review was not intended to enable us to express, and we do not express, an opinion on the conclusions expressed therein. Kearney is responsible for the opinion in the attached reports and the conclusions in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Kearney did not comply, in all material respects, with generally accepted Government Auditing Standards.

If you have any questions or wish to discuss this report, please contact Ashton Coleman, Jr., at 202.593.0261 or Ashton.Coleman@aoc.gov.

Distribution List:

Christine A. Merdon, P.E., CCM, Chief Operating Officer
Thomas J. Carroll, Chief Financial Officer
Amy Johnson, Chief Administrative Officer
Shalley Kim, Executive Officer
Brian Kohler, Management and Program Analyst
File OIG -2018-0004-AUD-R

**Architect of the Capitol
Office of Inspector General**

**AUDIT OF
FISCAL YEAR 2017 FINANCIAL STATEMENTS**

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SECTION II

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Architect of the Capitol and Inspector General of the Architect of the Capitol

Report on the Financial Statements

We have audited the accompanying financial statements of the Architect of the Capitol (AOC), which comprise the balance sheets as of September 30, 2017 and 2016, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit 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 entity'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 entity'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 AOC as of September 30, 2017 and 2016 and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Spending and other information in Section IV are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued reports, dated November 10, 2017, on our consideration of the AOC's internal control over financial reporting and on our tests of the AOC's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2017. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to



provide an opinion on internal control over financial reporting, compliance, and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 and should be considered in assessing the results of our audit.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 10, 2017

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Architect of the Capitol and Inspector General of the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2017, and we have issued our report thereon dated November 10, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the AOC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AOC's internal control. Accordingly, we do not express an opinion on the effectiveness of the AOC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.



We noted certain additional matters involving internal control over financial reporting that we will report to AOC's management in a separate letter.

The AOC's Response to Findings

The AOC's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The AOC's response was not subjected to the auditing procedures applied in our audit of the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the AOC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
November 10, 2017



Schedule of Findings and Responses

Significant Deficiency

Incomplete Review of Service Organization Controls (SOC) Reports from the National Finance Center (NFC)

The Architect of the Capitol (AOC) has not followed the guidelines established in its Chief Financial Officer (CFO) Senior Assessment Team (SAT) 001, *Internal Control over Financial Reporting Standard Operating Procedures (SOP)*, Section 13. Specifically, the AOC has not identified responsible individuals for the completion of the objectives established in the policy. Additionally, AOC has not evaluated conclusions reached from SOC reports, nor assessed whether there are control gaps and a need for the establishment of manual compensating controls to mitigate any risks imposed on the agency.

Recommendation:

Kearney & Company, P.C. (Kearney) recommends that AOC implement the elements of CFO SAT 001, *Internal Control over Financial Reporting SOP*, related to SOC reports. Specific elements/activities required by the SOP include:

1. Perform and document a comprehensive mapping of internal control activities to key internal control activities performed on behalf of AOC by third-party service providers.
 - a. Determine if any control gaps exist and determine the need for AOC manual controls.
 - b. Evaluate the need for complimentary user entity controls (CUEC) based on the SOC - 1.
2. Assign responsibilities and implement SOC 1 evaluation activities and subsequent remedial actions.
3. For key controls that were assessed and determined to be either not suitably designed or not operating effectively, gain an understanding of the root causes and identify mitigating controls.
4. Update existing SOP to reflect current accounting standards regarding SOC-1 reports, i.e. SSAE 18 instead of SSAE 16.

Management's Response to Finding: Management concurs with this finding and recommendation.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

Multiple issues were noted relating to internal control over financial reporting in the *Independent Auditor's Report on Internal Control over Financial Reporting* on the Architect of the Capitol's (AOC) fiscal year (FY) 2016 financial statements. The table below presents a summary of the current-year status of these issues.

Prior-Year Deficiencies

Deficiency	2017 Status	2016 Status
Accounting inappropriately charged \$65.4 million of capitalized project expenditures to the FY 2016 cost of operations. AOC did not restate the FY 2015 financial statements for the \$43.2 million of capitalized costs that were included in the FY 2016 charge-off.	Closed	Material Weakness
AOC does not have a comprehensive formal reporting and reconciliation process for the contract holdback balance (retainage).	Closed	Significant Deficiency

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, GRANT AGREEMENTS, AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Architect of the Capitol and Inspector General of the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2017, and we have issued our report thereon dated November 10, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AOC's financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the AOC. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.



Alexandria, Virginia
November 10, 2017

**Architect of the Capitol
Office of Inspector General**

**AUDIT OF
FISCAL YEAR 2017 FINANCIAL STATEMENTS**

OIG Report 2018-0004-AUD-R

SECTION III

Architect of the Capitol Comments



Architect of the Capitol
U.S. Capitol, Room SB-16
Washington, DC 20515
202.228.1793
www.aoc.gov

November 10, 2017

Mr. Christopher Failla
Inspector General
Architect of the Capitol
Washington, DC 20515

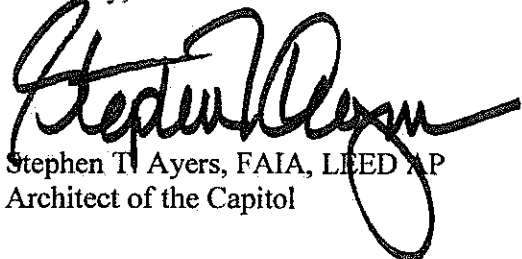
Dear Mr. Failla:

Thank you for the opportunity to comment on the Independent Auditor's Report on the Financial Statements, Independent Auditor's Report on Internal Control over Financial Reporting and Independent Auditor's Report on Compliance and Other Matters for the Fiscal Years ending September 30, 2017 and 2016. The Architect of the Capitol (AOC) works diligently to establish strong financial management practices to address our compliance requirements, manage our financial processes and systems, and meet our day-to-day financial responsibilities.

The annual independent financial statement audit process continues to provide us with new insights and valuable financial management recommendations. We are pleased that the result of this year's audit is an unmodified opinion — marking the 13th consecutive year that the AOC has received a "clean" independent audit opinion. The auditor's report identified zero material weaknesses and one new significant deficiency for the *Incomplete Review of Service Organization Controls Reports from the National Finance Center*. Management concurs with the audit finding and will develop corrective action plans to remedy this issue in Fiscal Year 2018. In accordance with the auditor's recommendations, we will document and assess internal control activities performed on behalf of the AOC by third-party providers to ensure that the internal controls continue to be effective.

We recognize there is more to be done that will require our organization's sustained attention, action and improvement. I would like to thank the Office of Inspector General and our auditors, Kearney & Company, P.C., for your teamwork and professional approach. We remain committed to excellence in financial management and look forward to the coming year.

Sincerely,



Stephen T. Ayers, FAIA, LEED AP
Architect of the Capitol

**Architect of the Capitol
Office of Inspector General**

**AUDIT OF
FISCAL YEAR 2017 FINANCIAL STATEMENTS**

OIG Report 2018-0004-AUD-R

SECTION IV

Management Representation Letter



Architect of the Capitol
U.S. Capitol, Room SB-16
Washington, DC 20515
202.228.1793
www.aoc.gov

November 10, 2017

Mr. William Kubistal, Partner
Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Kubistal:

This Representation Letter is provided in connection with your audit of the financial statements of the Architect of the Capitol (AOC), which comprise the balance sheet as of September 30, 2017; the related statements of net cost and changes in net position; and the combined statements of budgetary resources for the year then ended, as well as the related notes to the financial statements (hereinafter referred to as the "financial statements").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$1.6 million, collectively, are not considered to be exceptions that require disclosure for the purpose of the following representations. That amount is not necessarily indicative of amounts that would require adjustment or disclosure in the financial statements. Such quantitative materiality considerations do not apply to representations that are not directly related to amounts included in the financial statements, required supplementary information (RSI), and Other Information (OI).

We confirm, as of November 10, 2017, the following representations made to you during your audits. These representations pertain to both years' financial statements and update the representations provided in the prior year.

Financial Statements, Supplementary Information, RSI

1. We have fulfilled our responsibilities as set out in the terms of the audit engagement letter dated June 7, 2017, for the preparation and fair presentation of the financial statements in accordance with United States Generally Accepted Accounting Principles (GAAP) and any other laws, regulations, contracts, grant agreements, and/or Government-wide policies identified in Office of Management and Budget (OMB) audit guidance.
2. We have fulfilled our responsibility for the presentation of supplementary information in accordance with the applicable criteria and prescribed guidelines and:
 - a. The supplementary information is fairly presented in accordance with the applicable criteria and prescribed guidelines
 - b. There are no changes in the methods of measurement or presentation of the supplementary information from the prior year, including the reasons for such changes. There are no significant assumptions or interpretations underlying the measurement or presentation of the supplementary information that have not been disclosed to you.
3. We have fulfilled our responsibilities for the measurement, preparation, and presentation of the RSI in accordance with the prescribed guidelines established in GAAP and OMB audit guidance and:
 - a. The RSI is measured and presented in accordance with prescribed guidelines in GAAP and OMB audit guidance, is consistent with the financial statements, and contains no misstatements of fact
 - b. There are no changes in the methods of measurement or presentation of RSI from the prior year
 - c. There are no significant assumptions or interpretations underlying the measurement or presentation of the RSI that have not been disclosed to you.
4. We have fulfilled our responsibilities for the preparation and presentation of the OI included in the documents containing the audited financial statements and the auditor's report and for ensuring consistency of that information with the audited financial statements and RSI and:
 - a. The OI included in the documents containing the audited financial statements and auditor's report is consistent with the financial statements and RSI and contains no material misstatement of fact
 - b. There are no changes in the methods of preparation or presentation of OI from the prior year
 - c. There are no significant assumptions or interpretations underlying the preparation or presentation of the OI.

5. Accounts receivables represent bona fide claims or other charges arising on or before September 30, 2017. These receivables do not include any material amounts that are collectible after one year. The allowances are sufficient to provide for any losses that may be sustained upon realization of the receivables.
6. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
7. We have provided all available information related to environmental liabilities, especially information related to the estimate of asbestos cleanup liability consistent with Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2006-1.
8. All liabilities of AOC are included in the financial statements as of September 30, 2017. There are no material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Federal Financial Accounting Standards (SFFAS) No. 5 or unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with SFFAS No. 5.
9. We have provided all available information on contract holdbacks at both the contract and account summary level. We are not aware of any material errors related to the contract holdback balance.
10. We have provided you with all relevant information and access, as agreed upon in the terms of the engagement letter, including:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters
 - b. Additional information that you have requested from us for the purpose of the audit, including, but not limited to:
 - i. Applicable minutes of meetings of the Senior Assessment Team or summaries of actions of recent meetings for which minutes have not been prepared
 - ii. Communications from the Government Accountability Office (GAO), OMB, or other regulatory bodies concerning noncompliance with or deficiencies in financial reporting practices
 - c. Unrestricted access to and full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence
 - d. All reports obtained from AOC's service organizations.
11. There have been no:
 - a. Circumstances that have resulted in communications from AOC's legal counsel reporting evidence of a material violation of law or breach of fiduciary duty or similar violations by AOC of any agent thereof

- b. Communications from regulatory/oversight agencies (e.g., OMB and GAO); other Government entities or agencies; and governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws or regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements, supplementary information, RSI, and OI.
12. All transactions have been recorded in the accounting records and are reflected in the financial statements.
 13. There are no uncorrected misstatements in the financial statements, as you have not identified any during the audit and communicated them to us.
 14. AOC has satisfactory title to all owned assets, including stewardship land and heritage assets. There are no liens or encumbrances on these assets, and no assets have been pledged as collateral.
 15. We have no plans or intentions that may materially affect the recognition, measurement, presentation, disclosure, or classification of assets, liabilities, or equity.
 16. We have disclosed to you the identity of AOC's related parties and all related parties' relationships and transactions of which we are aware.
 17. Related party relationships and transactions, including accounts receivable or payable, revenues, expenditures, loans, transfers, leasing arrangements, assessments, and guarantees, have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of GAAP and OMB audit guidance and do not prevent the financial statements from achieving fair presentation.
 18. There are no guarantees under which AOC is contingently liable that require reporting or disclosure in the financial statements.
 19. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
 20. All events or transactions subsequent to September 30, 2017, and for which GAAP requires adjustment or disclosure have been adjusted or disclosed in the financial statements.
 21. There have been no changes to GAAP at AOC since September 30, 2017, nor have there been any changes to the application of such principles since September 30, 2016.
 22. We have disclosed that AOC has contracted with Washington Gas, a WGL Holdings, Inc., company, to design, build, and finance the Capital Power Plant Cogeneration Facility. All budgetary accounting related to acquisition and possession is consistent with all guidance received from general counsel and OMB.

Intra-Governmental and Intra-Entity Activities

23. All intra-entity activity and balances have been appropriately identified and eliminated for financial reporting purposes. All intra-governmental transactions and activities have been appropriately identified, recorded, and disclosed in the financial statements. We have been able to reconcile material intra-governmental transactions and balances with the Federal entity trading partners.

Internal Control

24. We acknowledge our responsibility for maintaining effective internal control over financial reporting. We are responsible for 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.
25. We have fulfilled our responsibility for maintaining effective internal control over financial reporting. We have fulfilled our responsibility for 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.
26. We are responsible for evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 United States Code (U.S.C.) § 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act [FMFIA]) and providing our assertion about the effectiveness of internal control over financial reporting as of September 30, 2017, based on our evaluation.
27. We evaluated the effectiveness of our internal control over financial reporting as of September 30, 2017, based on the criteria established pursuant to FMFIA. AOC's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that:
 - a. Transactions are properly recorded, processed, and summarized to permit preparation of the financial statements in accordance with GAAP and assets are safeguarded against loss from unauthorized acquisition, use, or disposition
 - b. Transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, where noncompliance could have a material effect on the financial statements.
28. We have disclosed to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that existed at any time during the fiscal year (FY) ended September 30, 2017, and indicated which deficiencies were corrected by September 30, 2017.

29. We have disclosed to you all significant deficiencies in the design or operations of internal control that could adversely affect AOC's ability to meet the internal control objectives.
30. We utilize a process to track the status of audit findings and recommendations. All significant deficiencies and material weaknesses identified by audits, attestation engagements, or other studies that remain unresolved as of September 30, 2016, have been resolved as of September 30, 2017.
31. There have been no changes to internal control over financial reporting subsequent to September 30, 2017, or other factors that might significantly impact the effectiveness of internal control over financial reporting.
32. Only WebTA users with the system account "Admin" can change the underlying AOC databases. AOC only uses contractors in the role, and the underlying contract contains an indemnification clause covering damages caused by the contractor.

Fraud

33. We acknowledge our responsibility for the design, implementation, and maintenance of effective internal control to prevent and detect fraud.
34. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud.
35. We have no knowledge of any fraud or suspected fraud affecting AOC involving the following:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting
 - c. Others where the fraud could have a material effect on the financial statements.
36. We have no knowledge of any fraud or suspected fraud involving others when the fraud could have a material effect on the financial statements and RSI.
37. We have no knowledge of any allegations of fraud or suspected fraud (affecting the financial statements or RSI) communicated by employees, former employees, or others.
38. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
39. We have no knowledge of any officer of AOC, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

Compliance of Systems with the Federal Financial Management Improvement Act (FFMIA)

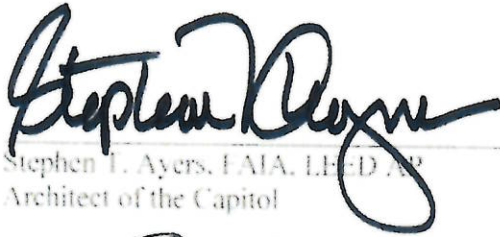
40. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management system requirements, Federal GAAP, and application of the United States Standard General Ledger (USSGL) at the transaction level.
41. We have assessed the financial management systems to determine whether they comply substantially with Federal financial management system requirements, Federal GAAP, and application of the USSGL at the transaction level. Our assessment was based on guidance issued by OMB.
42. AOC's financial management systems complied substantially with Federal financial management systems requirements, Federal GAAP, and application of the USSGL at the transaction level as of September 30, 2017.

Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements

43. We are responsible for complying with laws, regulations, contracts, and grant agreements applicable to AOC.
44. We have identified and disclosed to you all provisions of laws, regulations, contracts, and grant agreements applicable to AOC, noncompliance with which could have a material effect on the financial statements.
45. There are no instances of noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements, or abuse, the effects of which should be considered when preparing financial statements.
46. We are not aware of any violations of the Antideficiency Act that we must report to the Congress and the President (and provide a copy of the report to the Comptroller General) for the FY ended September 30, 2017, and through the date of this letter.

Budgetary and Restricted Funds

47. The information presented in AOC's Statement of Budgetary Resources is reconcilable to the information submitted in AOC's year-end Reports on Budget Execution and Budgetary Resources (Standard Form [SF]-133). This information will be used as input for FY 2017 actual column of the Program and Financing Schedules reported in the FY 2019 Budget of the U.S. Government. This information is supported by the related financial records and related data.
48. There are no material dedicated collections, as defined by FASAB SFFAS No. 43 and all other material restricted funds.



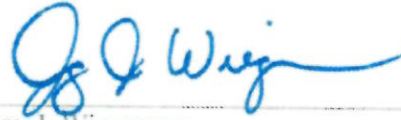
Stephen T. Ayers, FAIA, LEED AP
Architect of the Capitol



Christine A. Merdon, P.E., CCM
Chief Operating Officer



Thomas J. Carroll
Chief Financial Officer



Jay J. Wiegmann
Chief Information Officer



Kathy Sherrell
Accounting Officer

**Architect of the Capitol
Office of Inspector General**

**AUDIT OF
FISCAL YEAR 2017 FINANCIAL STATEMENTS**

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SECTION V

AOC Fiscal Year 2017 Financial Statements



Architect of the Capitol

Financial Statements

- I. Balance Sheet**
- II. Statement of Net Cost**
- III. Statement of Changes in Net Position**
- IV. Statement of Budgetary Resources**
- V. Footnotes to the Financial Statements**

Architect of the Capitol
Balance Sheet
As of September 30, 2017, and 2016

Dollars in Thousands	2017	2016
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 914,018	\$ 886,248
Investments (Note 5)	21,108	18,486
Accounts receivable (Note 6)	1,493	1,477
Other (Note 10)	939	545
Total intragovernmental	937,558	906,756
Cash and other monetary assets (Note 4)	52	32
Investments (Note 5)	10,320	10,275
Accounts receivable, net (Note 6)	849	1,008
Inventory & related property, net (Note 7)	622	554
General property, plant and equipment, net (Note 8)	2,007,638	1,860,824
Total assets	\$ 2,957,039	\$ 2,779,449
Stewardship PP&E (Note 9)		
Liabilities:		
Intragovernmental:		
Accounts payable	\$ 58	\$ 140
Unfunded FECA (Note 12)	9,223	9,293
Advances from Others	45,829	47,793
Other liabilities (Note 16)	55	629
Total intragovernmental	55,165	57,855
Accounts payable	2,368	2,898
Debt held by the public (Note 13)	89,492	98,445
Actuarial FECA (Note 12)	55,650	55,373
Contingent and Environmental liabilities (Note 14)	77,683	75,929
Accrued Annual Leave and Other (Note 12)	21,027	20,175
Capital Lease Liability (Note 15)	5,621	6,232
Contract Holdbacks	11,916	12,007
Other Liabilities (Note 16)	38,012	30,335
Total liabilities (Note 11)	\$ 356,934	\$ 359,249
Commitments and Contingencies (Note 14)		
Net position:		
Unexpended appropriations	\$ 717,962	\$ 704,276
Cumulative results of operations	1,882,143	1,715,924
Total Net Position	\$ 2,600,105	\$ 2,420,200
Total liabilities and net position	\$ 2,957,039	\$ 2,779,449

The accompanying footnotes are an integral part of these financial statements

Architect of the Capitol
Statement of Changes In Net Position
For the Years Ended September 30, 2017 and 2016

Dollars in Thousands	2017	2016
Cumulative Results Of Operations:		
Beginning Balances	\$ 1,715,924	\$ 1,721,462
Adjustments:		
Beginning balance, as adjusted	<u>\$ 1,715,924</u>	<u>\$ 1,721,462</u>
Budgetary Financing Sources:		
Appropriations used	616,898	572,246
Non-exchange revenue	133	59
Donations	13	-
Other Financing Sources (Non-Exchange):		
Transfers in/(out) without reimbursement	98,934	157
Imputed financing from costs absorbed by others (Note 17)	<u>25,318</u>	<u>26,975</u>
Total Financing Sources	<u>741,296</u>	<u>599,437</u>
Net Cost of Operations	(575,077)	(604,975)
Net Change	<u>166,219</u>	<u>(5,538)</u>
Cumulative Results Of Operations	<u>\$ 1,882,143</u>	<u>\$ 1,715,924</u>

Unexpended Appropriations:

Beginning Balance	\$ 704,276	\$ 647,915
Adjustments		
Beginning Balances - Adjusted	<u>\$ 704,276</u>	<u>\$ 647,915</u>
Budgetary Financing Sources:		
Appropriations received (Note 20)	632,755	622,868
Appropriations transferred in/(out)	-	8,300
Other adjustments	(2,171)	(2,561)
Appropriations used	<u>(616,898)</u>	<u>(572,246)</u>
Total Budgetary Financing Sources	<u>13,686</u>	<u>56,361</u>
Total Unexpended Appropriations	<u>\$ 717,962</u>	<u>\$ 704,276</u>
Net Position	<u>\$ 2,600,105</u>	<u>\$ 2,420,200</u>

The accompanying footnotes are an integral part of these financial statements

Architect of the Capitol
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2017 and 2016

Dollars in Thousands	2017	2016
Budgetary resources		
Unobligated balance brought forward, Oct 1	\$ 514,952	\$ 528,229
Recoveries of unpaid prior year obligations	25,144	16,218
Other changes in unobligated balances	26,506	5,739
Unobligated balance from prior year budget authority, net	<u>566,602</u>	<u>550,186</u>
Appropriations (Note 20)	632,831	597,023
Borrowing authority (Note 13)	8,277	-
Spending authority from offsetting collections	42,014	107,205
Total budgetary resources	<u>\$ 1,249,724</u>	<u>\$ 1,254,414</u>
Status of budgetary resources		
New Obligations and Upward Adjustments	\$ 663,083	\$ 739,462
Unobligated balance, end of year:		
Exempt from apportionment, unexpired accounts	562,970	492,824
Unexpired unobligated balance, end of year	562,970	492,824
Expired unobligated balance, end of year (Note 3)	23,671	22,128
Unobligated balance, end of year:	<u>586,641</u>	<u>514,952</u>
Total budgetary resources	<u>\$ 1,249,724</u>	<u>\$ 1,254,414</u>
Change in obligated balance		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 391,736	\$ 282,092
Adjustment to unpaid obligations, start of year		
New Obligations and Upward Adjustments	663,083	739,462
Outlays (gross)	(678,959)	(613,600)
Recoveries of prior year unpaid obligations	(25,144)	(16,218)
Unpaid Obligations, end of year	350,716	391,736
Uncollected payments:		
Uncollected payments, Fed sources, brought forward, Oct 1	(1,477)	(2,415)
Change in uncollected payments, Fed sources	(16)	938
Uncollected payments, Fed sources, end of year	<u>(1,493)</u>	<u>(1,477)</u>
Memorandum (non-add) entries:		
Obligated balance, start of year	\$ 390,259	\$ 279,677
Obligated balance, end of year (Note 3)	<u>\$ 349,223</u>	<u>\$ 390,259</u>
Budget authority and outlays, net		
Budgetary authority, gross	\$ 683,122	\$ 704,228
Actual offsetting collections	(84,922)	(99,133)
Change in uncollected payments, Fed sources	(16)	938
Recoveries of prior year paid obligations	4,856	10,395
Budget authority, net (total)	<u>603,040</u>	<u>616,428</u>
Outlays, gross	678,959	613,600
Actual offsetting collections	(84,922)	(99,133)
Outlays, net (total)	<u>594,037</u>	<u>514,467</u>
Agency outlays, net	<u>\$ 594,037</u>	<u>\$ 514,467</u>

The accompanying footnotes are an integral part of these financial statements

ARCHITECT OF THE CAPITOL
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017, and 2016

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NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Architect of the Capitol (AOC) is an agency within the legislative branch of the federal government. Initially authorized by Congress to provide "suitable buildings and accommodations for the Congress of the United States," its role has expanded to include responsibility for the maintenance, operation, development, and preservation of the Capitol Building (CB); Capitol Grounds (CG); Capitol Police Buildings, Grounds, and Security (CPBGS); House Office Buildings (HOB); Library Buildings and Grounds (LBG); Senate Office Buildings (SOB); Supreme Court Buildings and Grounds (SCBG); Capitol Power Plant (CPP); U.S. Botanic Garden (USBG); and U.S. Capitol Visitor Center (CVC). Pursuant to Public Law 114-254, AOC assumed custody, control and administration of the Thomas P. O'Neill Jr. Federal Building from the General Services Administration (GSA), effective June 8, 2017. This building is now included in all references to "House Office Buildings" in these financial statements.

AOC is also responsible for:

- supporting Congress during official national events (e.g., Presidential Inaugural Ceremonies) held at the Capitol or on the Capitol Grounds
- providing steam and chilled water to the Supreme Court, Thurgood Marshall Federal Judiciary Building (TMFJB), Union Station, and the Folger Shakespeare Library, and steam-only to the Government Printing Office (GPO) and the Postal Square building, and
- providing visitor guide services at the CVC and USBG

B. Basis of Accounting and Presentation

As a legislative branch agency of the federal government, AOC is not required to follow the accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). AOC has not formally adopted the Government Management and Reform Act of 1994, the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act of 1996, or the Government Performance and Results

Modernization Act of 2010, as these apply only to executive branch agencies. Nonetheless, AOC refers to these acts as a general guide for best practices and incorporates them into its financial management practices, as appropriate. AOC's financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by FASAB. The American Institute of Certified Public Accountants (AICPA) recognizes FASAB standards as GAAP for federal reporting entities. AOC has adopted GAAP for financial reporting in a manner consistent with other federal agencies.

AOC records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation, authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

C. Fund Balance with Treasury

AOC maintains most available fund balances with the U.S. Department of Treasury (Treasury). The Fund Balance with Treasury (FBWT) account represents the unexpended balances of appropriation accounts, trust accounts, and revolving funds. Cash receipts and disbursements are processed by Treasury, and AOC's records are reconciled with those accounts on a regular basis. In addition to the FBWT, AOC also has other cash deposits and investments as described in *Notes 4 and 5*, respectively.

D. Accounts Receivable

Accounts Receivable (*see Note 6*) includes reimbursement for supplying certain AOC and non-AOC entities on Capitol Hill with steam and chilled water to heat and cool their facilities. Per annual appropriation, AOC provides steam and chilled water to the Folger Library, Union Station,

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the Supreme Court and TMFJB, as well as steam-only to the GPO and the Postal Square building. AOC is legislatively provided the authority to collect a pre-determined amount to recover the cost of supplying these services and record these amounts as offsetting collections. Any amount collected over the pre-determined amount is credited to Treasury's Miscellaneous Receipt Fund and is a non-entity asset. In addition, receivables may include, but are not limited to, food service commissions from operations at the CVC restaurant, flag-flying fees, employee payroll overpayments as well as rent collections from the Monocle Restaurant. If applicable, Accounts Receivable is reduced to net realizable value by the Allowance for Doubtful Accounts, which is based on management's review of outstanding receivables.

E. Investments

All investments are reported at their acquisition (par) value, net of amortized premiums and discounts, as it is AOC's intent to hold the investments to maturity. Purchases and sales of investments are recorded as of the trade date. Investment income is reported when earned. The market value of the investments is the current market value at the end of the reporting period.

Intragovernmental (Investments Held With Treasury)

The CVC Revolving Fund was established under the *Capitol Visitor Center Act of 2008* (2 U.S.C. 31, 2201 et. seq.) to provide for the sale of gift shop items and the deposit of miscellaneous receipts. A portion of related funds are invested in government securities through the Bureau of Public Debt using their web-based application, FedInvest. By law, interest income is credited to the fund.

Entity (Investments Held Outside Treasury)

AOC has funds invested by a trustee outside of Treasury as a result of financing the construction of the TMFJB. Congress did not appropriate funds for the construction of the building but, instead, authorized the use of private financing to cover its cost. In 1989, AOC entered into a Development Management Agreement with Boston Properties for the design, development, and construction of the TMFJB.

Shearson Lehman Hutton, Inc., and Kidder, Peabody, & Co., Inc., issued 30-year Serial Zero Coupon Certificates of Participation to finance its construction. The discount on the purchase reflects the absence of coupon interest payments, and is amortized over the life of these certificates. Pursuant to a Trust Agreement, the proceeds were received by a trustee, The United States Trust Company of New York (now The Bank of New York Mellon). These proceeds were deposited into two funds, the Project Fund and the Operating Reserve Fund, to cover the costs of the construction project. In 2007, the Project Fund balance was transferred to the Operating Reserve Fund. The Operating Reserve Fund is held outside the Treasury by the trustee and, at AOC's direction, the funds are invested and disbursed. The Operating Reserve Fund is held in reserve for future needs of the building (e.g., roof replacement or other major renovation). See Note 5 for additional detail on investments.

F. Trust and Revolving Funds

Trust Funds

In Fiscal Year 2017, AOC has stewardship responsibility for one trust fund account, the National Garden Trust Fund, and one special fund account, the Capitol Trust Account.

The National Garden Trust Fund is subject to the direction of the Joint Committee on the Library (of Congress) and was established to accept gifts or bequests of money, plant material, and other property on behalf of the USBG. While this trust fund account still exists, it has a zero balance and is inactive.

The Capitol Trust Account was established by the Legislative Branch Appropriations Act, 2014 (part of the Consolidated Appropriations Act, 2014). This fund consists of permit fees collected by the United States Capitol Police (USCP) to cover costs incurred by the AOC as a result of the issuance of permits for commercial activity in Union Square. Funds in this trust are available for maintenance, improvements, and projects with respect to Union Square, subject to the approval of the Committees of the House of Representatives and Senate.

Revolving Funds

AOC has stewardship responsibility for seven revolving funds to account for various programs

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NOTES TO THE FINANCIAL STATEMENTS
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and operations. Each of these funds is a distinct fiscal and accounting entity that accounts for cash and other financial resources together with all related liabilities and equities. These revolving funds are:

- House (of Representatives) Gymnasium Revolving Fund
- Senate Health and Fitness Facility Revolving Fund
- Senate Restaurant Revolving Fund
- Judiciary Office Building Development and Operations Fund
- CVC Revolving Fund
- Recyclable Materials Revolving Fund, and
- Flag Office Revolving Fund

The House (of Representatives) Gymnasium Revolving Fund was established in the Treasury for AOC to deposit dues paid by members and other authorized users of the House of Representatives Wellness Center. AOC may expend fund amounts to pay for the operation of the facility.

The Senate Health and Fitness Facility Revolving Fund was established to deposit membership dues collected from authorized users of the Senate Health and Fitness Facility and proceeds from AOC's Senate recycling program. AOC, subject to the approval of the Senate Committee on Appropriations, may expend fund amounts to pay for the preservation and maintenance of the facility.

The Senate Restaurant Revolving Fund was established in 1961 for the operation of the Senate restaurants. In 2008, control of the Senate restaurants was transferred to a private vendor and AOC took over its accounting functions. Following the transfer, the revolving fund is no longer used for the operation of the restaurants, but the account still exists for activities resulting from the conversion and continuing maintenance of the restaurants. Upon approval by the Senate Committee on Rules and Administration, available balances may be increased via transfers in from the U.S. Senate to AOC, as needed.

The Judiciary Office Building Development and Operations Fund is used to pay expenses related to the structural, mechanical, and domestic care, maintenance, operation, and utilities of the TMFJB.

The fund includes an investment that is held outside Treasury with The Bank of New York Mellon, via a Trust Agreement established to finance the construction of the TMFJB.

The CVC Revolving Fund is used to administer funds from the sale of gift shop items, the deposit of miscellaneous receipts such as net profits or commissions paid to the CVC for food service operations, and any fees collected from other functions within the CVC facility. This business-type revolving fund is invested in government securities through the Bureau of Public Debt.

The Recyclable Materials Revolving Fund was established to record proceeds from the sale of recyclable materials from across AOC (excluding the Senate, which deposits such funds in the Senate Health and Fitness Facility Revolving Fund). The fund balance is without fiscal year limitation and may be used to carry out recycling programs or other programs that promote energy savings at AOC.

The Flag Office Revolving Fund was established was established pursuant to P.L. 115-31 for services provided by the AOC Flag Office. This fund consists of Flag fees collected by the AOC Flag Office and is available for the Flag Office's expenses, including

- supplies, inventories, equipment, and other expenses;
- reimbursement of any applicable appropriations account for amounts used from such appropriations account to pay the salaries of employees of the Flag Office; and
- amounts necessary to carry out the authorized levels in the Fallen Heroes Flag Act of 2016.

Funds from Dedicated Collections

SFFAS No. 27 *Identifying and Reporting Earmarked Funds from Dedicated Collections*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds* defines funds from dedicated collections as financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and

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other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. As of the current reporting period, there are no AOC funds that meet the criteria for funds from dedicated collections.

G. Recognition of Financing Sources

AOC receives funding to support its programs through appropriations authorized by Congress. Funding for operating and capital expenditures is received as annual, multi-year, and no-year appropriations. This includes funding for the House Historic Buildings Revitalization Trust Fund, which is a general fund that is funded by direct appropriations. Amounts in this fund are restricted for the revitalization of the major historical buildings and assets of the House of Representatives with the approval of the House Appropriations Committee.

The appropriations that AOC manages are listed below. Inactive funds are included below for full disclosure.

1. Capitol Building
 - Capitol Building
 - Flag Office Revolving Fund
2. Capitol Grounds
 - Capitol Grounds
 - West Central Front (inactive)
 - Capitol Trust Account (Union Square)
3. Capitol Police Buildings, Grounds, and Security
4. Capital Construction and Operations
 - Capital Construction and Operations
 - American Disabilities Act (inactive)
 - Congressional Cemetery (inactive)
5. House Office Buildings
 - House Office Buildings Fund
 - House of Representatives Gymnasium Revolving Fund
 - House Historic Buildings Revitalization Trust Fund
 - Recyclable Materials Revolving Fund
6. Library Buildings and Grounds

7. Senate Office Buildings
 - Senate Office Buildings
 - Senate Health and Fitness Facility Revolving Fund
 - Senate Restaurant Revolving Fund
8. Capitol Power Plant
9. U.S. Botanic Garden
 - Botanic Garden
 - National Garden (inactive)
10. U.S. Capitol Visitor Center Revolving Fund
11. Supreme Court Buildings and Grounds
 - Supreme Court
 - Judiciary Office Building Development and Operations Fund

H. Operating Materials and Supplies

AOC's materials and supplies consist of tangible personal property consumed during normal operations. Per Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, operating materials and supplies are recorded using the purchases method. This method provides that operating materials and supplies be expensed when purchased. Operating materials and supplies are purchased using funds specifically appropriated to AOC's jurisdictions. Therefore, the related usage of those materials and supplies is intended for those specific jurisdictions making the purchases (*see Note 1.I*).

I. Inventory

Inventory is recorded at historical cost, using the weighted average valuation method, in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*, and consists of retail goods purchased for resale at the CVC's gift shops. The recorded values may be adjusted based on the results of periodic physical inventory counts. Inventory purchased for resale may be categorized as follows: (1) purchased goods held for current sale, (2) purchased goods held in reserve for future sale, and (3) slow-moving, excess or obsolete inventory. Examples of the retail goods included in inventory that are classified as "held for current sale" are books, t-shirts, jewelry and other souvenirs. AOC may also record an allowance which is based on slow-moving, excess or obsolete and damaged inventory, as a result of known restrictions on the sale or disposition of inventory (*see Note 7*).

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J. General Property, Plant and Equipment, Net

AOC records property at cost. Real property and equipment are depreciated over their estimated useful lives, which range from three to 40 years, using the straight-line method. Depreciation is based on the half-year and full-month conventions for buildings and equipment, respectively. All property (real and personal) is in AOC's possession and there is nothing held by others (see Note 8).

The following table presents AOC capitalization thresholds and related useful lives:

Property Type	Useful Life (Years)	Capitalization Threshold
Real Property	40	\$500,000
Improvements	20	\$500,000
Equipment and Vehicles	3-15	\$25,000
Assets Under Capital Lease	Shorter of Lease Term or Useful Life of Property Type	See Related Property Type
Internal Use Software (Intellectual Property)	3	\$5,000,000

K. Stewardship PP&E

Stewardship land and heritage assets have physical properties that resemble those of General PP&E, which are traditionally capitalized in the financial statements. Due to the nature of stewardship assets, however, determining a monetary value would be difficult, and matching costs with specific periods may not be possible or meaningful. Heritage assets are PP&E that are unique and are generally expected to be preserved indefinitely. Heritage assets have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. These assets are reported in terms of physical units rather than cost or other monetary values per SFFAS No. 29 *Accounting for Heritage Assets and Stewardship Land*. There are two types of heritage assets: collection, which are objects gathered and maintained for exhibition, such as museum and art collections; and non-collection, which are parks, memorials, monuments and buildings. AOC holds both collection and non-collection heritage stewardship assets (see Note 9).

L. Liabilities

Liabilities represent the amounts owed to others for goods or services received, and amounts owed for progress in contract performance. Some liabilities are funded while others are unfunded because no liability may be paid without an enacted appropriation. For example, future appropriations may be enacted to fund activities for accrued unfunded annual leave and workers' compensation. The Balance Sheet presents the following types of liabilities:

- Accounts Payable
- Debt Held by the Public
- Unfunded Actual and Actuarial Workers' Compensation
- Contingent and Environmental Liabilities
- Accrued Annual Leave
- Capital Lease Liability
- Contract Holdbacks
- Advances from Others, and
- Other Liabilities

M. Personnel Compensation and Benefits

Federal Employee Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. The DOL determines the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases (see Note 12).

AOC recognizes its share of the cost of providing future pension benefits to eligible employees over the period the related services are rendered. The amount funded by the Office of Personnel Management is considered imputed financing (see Note 17).

AOC recognizes a current-period expense for the future cost of post-retirement health benefits and

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life insurance for its employees while they are actively employed. This amount is also considered imputed financing (*see Note 17*).

Annual and Other Leave

Annual leave is recognized as an expense and a liability as it is earned. The liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Other types of leave are expensed when taken and no future liability is recognized for these amounts (*see Note 12*).

N. Contingent and Environmental Liabilities

AOC accounts for contingencies in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. This standard defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to the possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Management recognizes a contingent liability for liabilities equal to or greater than \$100 thousand when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow is measurable. AOC has recorded no loss provisions for contingent liabilities (*See Note 14*).

SFFAS No. 5 also provides criteria for recognizing a contingent liability for material amounts of environmental cleanup costs that are related to general and stewardship PP&E used in federal operations. In accordance with Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, AOC recognizes a liability and related expense for friable and non-friable asbestos cleanup costs when it is both probable and reasonably estimable - consistent with SFFAS No. 5, SFFAS No. 6, and Technical Release No. 2 (*see Note 14*).

O. Statement of Net Cost

The Statement of Net Cost (SNC) is presented by responsibility segment, (which are AOC jurisdictions), in accordance with SFFAS No. 4,

Managerial Cost Accounting Concepts and Standards for the Federal Government. Costs not assigned to any of AOC's ten major jurisdictions are presented as Capital Construction and Operations. AOC has a number of initiatives (e.g., cost accounting and strategic vision) in place to gather program data in order to provide more information to its stakeholders. While these initiatives are in various stages of progress, AOC believes the responsibility segment approach currently provides information to its stakeholders in a direct, informative, and succinct manner.

The 11 responsibility segments reported on the SNC are identified below.

- Capitol Building
- Capitol Grounds
- Capitol Police Buildings, Grounds, and Security
- Capital Construction and Operations
- House Office Buildings
- Library Buildings and Grounds
- Senate Office Buildings
- Capitol Power Plant
- U.S. Botanic Garden
- U.S. Capitol Visitor Center, and
- Supreme Court Buildings and Grounds

Revenues reported on the SNC are principally recorded on a direct cost recovery basis.

P. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities (including contingent liabilities), revenues, financing sources, expenses and obligations incurred during the reporting period. These estimates are based on management's best knowledge of current events, historical experience and other assumptions that are believed to be reasonable under the circumstances. Estimates are subject to a wide range of variables, including assumptions on future economic and financial events. Accordingly, actual results may differ from those estimates.

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NOTE 2: Entity and Non-Entity Assets

Non-entity assets are those held by AOC but unavailable for use in its operations. Activities that give rise to non-entity assets include:

- steam and chilled water collections over the annual Congressional cap,
- rent collections from the Monocle Restaurant,
- flag-flying fees (prior to May, 2017), and
- provision of palm trees for rent by the USBG

Upon receipt, funds for these activities are not available for AOC use. At year-end, all collections are transferred to Treasury and the only non-entity assets remaining are the related Accounts Receivable.

AOC's assets as of September 30, 2017, and 2016 were as follows: (dollars in thousands)

Dollars in thousands		2017	
Descriptions	Entity	Non-Entity	Total
Intragovernmental			
Fund Balance with Treasury (Note 3)	\$914,018	\$-	\$914,018
Investments (Note 5)	21,108	-	21,108
Accounts Receivable, Net (Note 6)	1,493	-	1,493
Other (Note 10)	939	-	939
Total Intragovernmental	\$937,558	\$-	\$937,558
Cash and Other Monetary Assets (Note 4)	\$52	\$-	\$52
Investments (Note 5)	10,320	-	10,320
Accounts Receivable, Net (Note 6)	794	55	849
Inventory & Related Property, Net (Note 7)	622	-	622
General Property, Plant and Equipment, Net (Note 8)	2,007,638	-	2,007,638
Total	\$2,956,984	\$55	\$2,957,039

Dollars in thousands		2016	
Descriptions	Entity	Non-Entity	Total
Intragovernmental			
Fund Balance with Treasury (Note 3)	\$886,248	\$-	\$886,248
Investments (Note 5)	18,486	-	\$18,486
Accounts Receivable, Net (Note 6)	1,436	41	\$1,477
Other (Note 10)	545	-	\$545
Total Intragovernmental	\$906,715	\$41	\$906,756
Cash and Other Monetary Assets (Note 4)	\$32	\$-	\$32
Investments (Note 5)	10,275	-	\$10,275
Accounts Receivable, Net (Note 6)	1,000	8	\$1,008
Inventory & Related Property, Net (Note 7)	554	-	\$554
General Property, Plant and Equipment, Net (Note 8)	1,860,824	-	\$1,860,824
Total	\$2,779,400	\$49	\$2,779,449

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NOTE 3: Fund Balance with Treasury

Funds with Treasury primarily consist of appropriated funds. As of September 30, 2017, AOC also has stewardship responsibility for seven revolving funds and administrative responsibility for one trust fund and one special fund.

A. Fund Balances

The balance of these funds as of September 30, 2017, and 2016 is as follows:

Dollars in thousands		
Fund Type	2017	2016
Appropriated Funds	\$842,668	\$820,253
Trust and Revolving Funds	71,350	65,995
Total	\$914,018	\$886,248

B. Status of Fund Balance with Treasury

FBWT is classified as unobligated available, unobligated unavailable, obligated and not yet disbursed, or Non Budgetary FBWT. Unobligated available balances represent unexpired appropriations available for incurring new obligations. The Unobligated Available amount in this note will not reconcile to the Unobligated-Exempt from apportionment amount in the SBR throughout the year due to anticipated activity (closed out at year end) and CVC investment included in Note 5. Unobligated unavailable balances are expired appropriations that are no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid. Non Budgetary FBWT (if applicable) includes unavailable miscellaneous receipts and suspense accounts that do not provide budget authority.

Dollars in thousands		
Balance Type	2017	2016
Unobligated Balance		
Available	\$541,121	\$473,858
Unavailable	23,671	22,128
Obligated Balance not yet Disbursed	349,223	390,259
Non Budgetary FBWT	3	3
Total	\$914,018	\$886,248

NOTE 4: Cash and Other Monetary Assets

Cash and Other Monetary Assets include change-making funds maintained outside Treasury for CVC Gift Shop operations and daily gift shop sales deposits-in-transit. There are no restrictions on cash.

The cash balances as of September 30, 2017, and 2016 are as follows:

Dollars in thousands		
Cash & Other Monetary Assets	2017	2016
Undeposited Collections	\$38	\$18
Cash Imprest Funds	14	14
Total	\$52	\$32

NOTE 5: Investments

Intragovernmental investments comprise the investment of the sales proceeds from the CVC gift shop, which is invested at Treasury via the Bureau of Public Debt. Investments with the public comprise the investment of the residual operating reserve funds from the construction of the TMFJB. These funds are invested by the Bank of NY Mellon.

During FY 2017, Intragovernmental Investments increased by \$2.6 million compared to the same reporting period for FY 2016. This is primarily due to increased revenue from gift shop sales, which was subsequently invested with Treasury. Also, the difference in the type of certificates (one-day, six-month, one-year) reflects the timing difference between the maturity and reinvestment of securities. Upon maturity, the proceeds from six-month and one-year securities remain in one-day certificates until they are reinvested in longer term certificates.

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At September 30, 2017

Dollars in thousands

Investments Intragovernmental, Nonmarketable:	Shares/Par	Amortized Prem. /(Net of Disc.)	Interest Receivable	Investments, Net	Market Value
Capitol Visitor Center Revolving Fund					
One Day Certificate, 0.96% Daily Yield Maturing 10/02/2017	\$2,225	\$-	\$-	\$2,225	\$2,225
Six month Certificate, 0.00% Six Month Yield Maturing 01/11/2018	5,028	(16)	-	5,012	5,012
One Year Certificate, 0.00% Annual Yield Maturing 7/19/2018	12,890	(125)	-	12,765	12,765
One Year Certificate, 0.00% Annual Yield Maturing 3/01/2018	1,111	(5)	-	1,106	1,106
Total Intragovernmental	\$21,254	\$(146)	\$-	\$21,108	\$21,108
With the Public:					
The Bank of New York Mellon Operating Reserve Fund Serial Zero Coupon Certificates Maturing 08/15/2024	\$10,320	-	\$-	\$10,320	\$10,320
Total With the Public	\$10,320	\$-	\$-	\$10,320	\$10,320
Total Investments	\$31,574	\$(146)	\$-	\$31,428	\$31,428

At September 30, 2016

Dollars in thousands

Investments Intragovernmental, Nonmarketable:	Shares/Par	Amortized Prem. /(Net of Disc.)	Interest Receivable	Investments, Net	Market Value
Capitol Visitor Center Revolving Fund					
One Day Certificate, 0.11% Daily Yield Maturing 10/3/2016	\$2,571	\$-	\$-	\$2,571	\$2,571
Six Month Certificate, 0.37% Annual Yield Maturing 1/5/2017	\$5,000	(5)	-	\$4,995	\$4,996
One Year Certificate, 2.375% Annual Yield 7/31/2017	\$10,719	\$159	\$42	\$10,920	\$10,873
Total Intragovernmental	\$18,290	\$154	\$42	\$18,486	\$18,440
With the Public:					
The Bank of New York Mellon Operating Reserve Fund Serial Zero Coupon Certificates Maturing 08/15/2024	\$10,275	\$-	\$-	\$10,275	\$10,275
Total With the Public	\$10,275	\$-	\$-	\$10,275	\$10,275
Total Investments	\$28,565	\$154	\$42	\$28,761	\$28,715

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: Accounts Receivable, Net

The breakdown of the consolidated accounts receivable (both Intragovernmental and With the Public), as of September 30, 2017, and 2016 is as follows:

Dollars in thousands		
Accounts Receivable	2017	2016
Intragovernmental:		
Entity	\$1,493	\$1,436
Non-Entity	-	41
Total		
Intragovernmental	\$1,493	\$1,477
With the Public:		
Entity	\$794	\$1,001
Non-Entity	55	7
Total With the Public	\$849	\$1,008
Total	\$2,342	\$2,485

As of the current period all accounts are considered current and there is no allowance for doubtful accounts.

NOTE 7: Inventory

Inventory consists of retail goods purchased for resale at the Capitol Visitor Center's gift shops. The inventory amounts presented herein are limited to purchases made with the gift shops' revolving funds. AOC may record an allowance which is based on slow-moving, excess or obsolete and damaged inventory, if applicable.

Inventory, as of September 30, 2017, and 2016 is as follows:

Dollars in thousands		
Inventory Category	2017	2016
Purchased Goods Held for Current Sale	\$622	\$554
Total	\$622	\$554

During the current reporting period, the inventory on hand quantity is significantly higher compared to the same period last year. This is due to the CVC receiving its highest volume of visitors since inception which increased overall sales and required a higher level of in-stock inventory. Based upon management reviews of the most recent inventory count, inventory that was considered damaged or restricted was disposed in accordance with normal operating practices. Therefore, there is no damaged inventory to report as of September 30, 2017.

NOTE 8: General Property, Plant and Equipment, Net

AOC differentiates its property and equipment by distinct categories. The following represents these categories and their balances as of September 30, 2017, and 2016:

At September 30, 2017				
Dollars in thousands				
Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value	%
Buildings	\$1,436,680	\$748,195	\$688,485	34.3%
Buildings Improvements	1,822,823	916,717	906,106	45.1%
Land	169,231	-	169,231	8.4%
Land Improvements	159,483	95,513	63,970	3.2%
Capital Leases (Real Property)	39,749	35,332	4,417	0.2%
Leasehold Improvements	22,934	18,999	3,935	0.2%
Equipment and Internal Use Software	20,109	17,215	2,894	0.1%
Other Structures	9,288	3,976	5,312	0.3%
Construction Work-in-Progress	163,288	-	163,288	8.2%
Total	\$3,843,585	\$1,835,947	\$2,007,638	100.0%

At September 30, 2016				
Dollars in thousands				
Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value	%
Buildings	\$1,398,961	\$696,643	\$702,318	37.7%
Buildings Improvements	1,532,141	851,635	680,506	36.6%
Land	168,672	-	168,672	9.1%
Land Improvements	158,593	87,870	70,723	3.8%
Capital Leases (Real Property)	39,749	34,786	4,963	0.3%
Leasehold Improvements	68,250	29,532	38,718	2.1%
Equipment and Internal Use Software	19,417	16,681	2,736	0.1%
Other Structures	9,288	3,616	5,672	0.3%
Construction Work-in-Progress	186,516	-	186,516	10.0%
Total	\$3,581,587	\$1,720,763	\$1,860,824	100.0%

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The educational, artistic, architectural, and historical significance of the U.S. Capitol, Senate, House, Supreme Court, and Jefferson buildings meets the FASAB criteria for heritage assets. Since these buildings are currently used for day-to-day business, they are further classified as multi-use heritage assets. As a result, they are depreciated in the same manner as if they were general purpose assets.

Although the original assets are fully depreciated, subsequent improvements and betterments to the buildings are currently being depreciated in accordance with established policy. AOC is responsible for reviewing and authorizing all structural and architectural changes to the buildings and grounds prior to any change occurring.

NOTE 9: Stewardship PP&E

The AOC maintains and preserves stewardship PP&E that is central to its mission to serve Congress and the Supreme Court, preserve America's Capitol and inspire memorable experiences. Authority for the AOC's care and maintenance of the U.S. Capitol Building was established by legislation in 1876. The agency maintains multiple categories of heritage assets, including historic buildings, structures, stewardship lands and cultural landscapes, artwork, architectural features, reference and library materials, archival records and living botanical assets. The AOC shares responsibility for certain heritage assets with the curators for the U.S. Senate and the House of Representatives. These shared heritage assets are categorized as joint works of art and included in the AOC's inventory. While AOC is responsible for the architectural fine art adorning the U.S. Supreme Court, the collectible fine art within the building does not fall under the AOC's jurisdiction and is cared for by the Curator of the Supreme Court.

The AOC's heritage asset management is principally guided by the Secretary of the Interior's Standards and Guidelines for Treatment of Historic Properties and Cultural Landscapes and by the Code of Ethics and Guidelines for Practice of the American Institute for Conservation of Historic and Artistic Works. The reference and library materials collection is guided by the National Archives and Records Administration preservation standards, and the living botanical assets collection is guided by the standards for care of the American Alliance of Museums and Botanic Garden Conservation International. The AOC's heritage asset collections are described more fully in the Required Supplementary Information (RSI). Deferred maintenance

and repairs related to its heritage assets are separately disclosed as RSI.

Historic Buildings and Structures

The AOC maintains the Capitol campus, which includes multiple historic buildings and structures. These include the U.S. Capitol Building, Russell Senate Office Building, Dirksen Senate Office Building, Hart Senate Office Building, Senate Underground Garage, Daniel Webster Page Residence, Cannon House Office Building, Longworth House Office Building, Rayburn House Office Building, East and West House Underground Garages, Ford House Office Building, Thomas Jefferson Building, John Adams Building, James Madison Memorial Building, U.S. Botanic Garden (USBG) Conservatory, USBG Administration Building, Capitol Power Plant (CPP) Main Boiler Building, CPP East Refrigeration Plant, CPP Old Generator Building, U.S. Supreme Court and Thurgood Marshall Federal Judiciary Building (TMFJB). All are considered multi-use heritage assets. Multi-use heritage assets are defined as stewardship assets whose predominant use is in general government operations. They are assigned a cost on the Balance Sheet and presented under General Property, Plant and Equipment, Net. In general, historic buildings and structures are added or withdrawn through congressional action.

Stewardship Lands and Cultural Landscapes

The AOC-administered stewardship lands encompass more than 570 acres of grounds. This includes Capitol Square, the approximately 290 acres of grounds immediately surrounding the U.S. Capitol Building designed by noted American landscape architect Frederick Law Olmsted. In addition, the cultural landscapes include Senate Park, Senate office building sites and courtyards, House office building sites and courtyards, Botanic Garden and National Garden, Bartholdi Park, USBG Administration Building site, Union Square, Thomas Jefferson Building site, John Adams Building site, James Madison Memorial Building site, Supreme Court Building site, TMFJB site and memorial trees planted on the U.S. Capitol Grounds to honor distinguished citizens, groups and national events.

In general, units of stewardship land are added or withdrawn through congressional action. Memorial trees are added through congressional action or donation. An inventory of the AOC's memorial trees as of September 30, 2017, and 2016 follows:

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Description	2016	Acquired	Withdrawn	Adjustments	2017	Condition
Memorial Trees	138	3	-	3	144	Good

Collectible Heritage Assets

The AOC is the steward of collectible heritage assets. In general, collectible heritage assets are added or withdrawn through congressional action. For the living botanical assets, assets are added or withdrawn through congressional action or interagency transfers. Collectible Heritage Assets include:

Artwork: The AOC cares for artwork that is part of the Capitol campus' buildings and grounds. This includes fine art, decorative art, architectural fine art and architectural decorative art.

Architectural Features: The Capitol campus is graced with many unique architectural features. These include outdoor sculptures and monuments, and landscape features and fixtures.

Reference and Library Materials: The AOC's collections include art and reference files, and art and reference library materials.

Archival Records: The AOC's collections include architectural and engineering drawings, manuscripts and other textual records, small architectural models, photographs and conservation reports.

Living Botanical Assets: As Acting Director of the USBG, the AOC has living botanical assets in its collection. These include a variety of plants for exhibition, study and exchange with other institutions.

An inventory of the AOC's collectible heritage assets as of September 30, 2017, and 2016 follows:

Description	2016	Acquired	Withdrawn	Adjustments	2017	Condition
Artwork	2,023	7	(2)	(2)	2,026	Poor to Excellent
Architectural Features	202	-	-	-	202	Fair to Excellent
Reference and Library Materials:		-	-	-		
Art and Reference Files (drawers)	108	-	-	-	108	Good
Art and Reference Library (volumes)	1,199	9	-	-	1,208	Good
Archival Records	478,070	19,785	-	-	497,855	Fair to Excellent
Living Botanical Assets (Accessions)	10,423	-	(707)	(248)	9,468	N/A

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NOTE 10: Other Assets

As of September 30, 2017, Other Assets consist of employee travel advances, and a project advance payment to the U.S. Capitol Police for security work related to the Cannon Renewal project. The current year increase in Other Assets is due to advances paid to U.S. Capitol Police for costs related to the Maximo multi-tenancy system upgrade, and security support on the Cannon renewal project.

Dollars in thousands		
Other Assets	2017	2016
Advances to Others	\$939	\$545
Total	\$939	\$545

NOTE 11: Liabilities

The Balance Sheet as of September 30, 2017, and 2016 includes, amongst others, some liabilities not covered by current budgetary resources. Such liabilities require Congressional action prior to budgetary resources being provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund them. Liabilities not covered by budgetary resources generally include accrued annual and compensatory leave, workers' compensation, debt held by the public, capital leases, contingent and environmental liabilities. Liabilities covered by budgetary resources generally include actual and accrued accounts payable, advances from others, contract holdbacks and other liabilities.

Liabilities covered/not covered by budgetary resources as of September 30, 2017, and 2016 are as follows:

Dollars in thousands		
Fund Type	2017	2016
Intragovernmental:		
Accounts Payable	\$58	\$140
Advances From Others	45,829	47,793
Other	-	580
Liabilities covered by budgetary resources	\$45,887	\$48,513
Accrued Unfunded Worker's Compensation	\$9,223	\$9,293
Other - Custodial Liabilities	55	49
Liabilities not covered by budgetary resources	\$9,278	\$9,342
Total Intragovernmental	\$55,165	\$57,855
With the Public:		
Accounts Payable	\$2,368	\$2,898
Contract Holdbacks	11,916	12,007
Other	38,012	30,335
Liabilities covered by budgetary resources	\$52,296	\$45,240
Debt Held by Public	\$89,492	\$98,445
Actuarial Unfunded Worker's Compensation	55,650	55,373
Environmental Liabilities - Unfunded	77,683	75,929
Accrued Annual Leave and Other	21,027	20,175
Capital Lease	5,621	6,232
Liabilities not covered by budgetary resources	\$249,473	\$256,154
Total With the Public	\$301,769	\$301,394
Total	\$356,934	\$359,249

NOTE 12: Payroll-Related Liabilities

On September 30, 2017, and 2016, the liability for Accrued Annual Leave and Other is comprised of three accounts: Funded Accrued Payroll (payroll that has been earned but not paid), Unfunded Accrued Annual Leave (employee leave that has been earned but not taken) and Workers' Compensation.

Accrued Payroll and Annual Leave, by type, as of September 30, 2017, and 2016 are as follows:

Dollars in thousands		
Accrued Annual Leave & Other	2017	2016
Funded Accrued Payroll	\$9,269	\$8,789
Unfunded Accrued Annual Leave	11,758	11,386
Total	\$21,027	\$20,175

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Workers' Compensation is reported as required by the Federal Employees' Compensation Act (FECA). The liability is presented in two parts: an annual accrued liability for billed costs (current portion) and a long-term, actuarial-based unfunded liability (see Note 1.L). The actuarial workers' compensation liability was calculated using a formula provided by the DOL.

Workers' Compensation, by type, as of September 30, 2017, and 2016 is as follows:

Dollars in thousands		
Workers' Compensation, by Type	2017	2016
Unfunded Workers' Compensation (Current)	\$9,223	\$9,293
Actuarial Workers' Compensation (Long-Term)	55,650	55,373
Total	\$64,873	\$64,666

Estimated future costs have been actuarially determined, and they are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. Workers' Compensation is included in Liabilities not covered by Budgetary Resources, as described in Note 11.

NOTE 13: Debt Held by the Public

Debt held by the public consists of 30-year Serial Zero Coupon Certificates of Participation issued in 1989 for \$125.4 million with a maturity value of \$525.5 million. The certificates are amortized using the effective interest rate of 9 percent (which corresponds to the discount). The balance of Debt Held by the Public is as follows:

Dollars in thousands		
Debt Held by the Public, by Type	2017	2016
Securities	\$120,610	\$137,840
Interest Payable	635	698
Subtotal	121,245	138,538
Discount on Securities	\$(400,123)	(400,123)
Less: Amortization of Discount	368,370	360,030
Subtotal	(31,753)	(40,093)
Total	\$89,492	\$98,445

Various judiciary offices and personnel occupy the TMFJB under an Interagency Agreement between AOC and the Administrative Office of the U.S. Courts. Base rent will not change over the initial 30 years, and is set at the amount necessary to retire the debt at \$17.2 million annually. Payment of the certificates will end in August 2024. This

certificate is not subject to prepayment or acceleration under any circumstance, pursuant to the language in the certificate agreement.

NOTE 14: Commitments and Contingencies

AOC is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the federal government. AOC also has responsibility to remediate certain sites with environmental contamination hazards related to ongoing operations. Additionally, AOC has contractual agreements with various energy service providers, which may require future financial obligations.

Contingent Liabilities

General contingent liabilities consist of claims filed against AOC which are awaiting adjudication. These liabilities typically relate to contracts, labor and equal employment opportunity issues, and personal and property damage.

For the purpose of estimating contingent liabilities for the financial statements, AOC conducted a review of existing claims for which the likelihood of loss to AOC is probable. Additionally, management and AOC's General Counsel evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. Liabilities are recognized for those cases that are determined to meet management's materiality threshold (see Note 1.N). No amounts are accrued in the financial records for claims where the estimated amount of potential loss does not exceed \$100 thousand or where the likelihood of an unfavorable outcome is less than probable. During the current and prior year reporting period there were no reported cases that met this criteria.

Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims. These matters arise in the course of carrying out AOC programs and operations. The ultimate outcomes in these matters cannot be predicted at this time; however as of September 30, 2017 the lower level estimate of these cases was \$500K. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect AOC's financial position or results of operations. Based on the less than probable nature of these claims, an accounting entry for the estimate was not posted and there is no impact on the financial statements.

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Environmental Cleanup Cost Liabilities Related to Asbestos Cleanup

AOC is responsible for managing and/or abating friable and non-friable asbestos-containing materials (ACM) in all Capitol Complex Buildings owned by the federal government. Pursuant to the Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, AOC recognizes a liability for cleanup costs that are both probable and reasonably estimable. This liability is founded on "per square foot" cost indexes (based on current industry guidance for asbestos cleanup projects), which are then applied to recorded quantities of ACM to derive a total estimated liability.

Actual cleanup costs may differ for the recorded estimate due to additional cost factors that are, at this time, not reasonably estimable. For example, there may be an additional difficulty factor associated with AOC projects due to the unique working conditions on Capitol Hill. Additionally, containment (room or area) for asbestos abatement is a required work element that is not reasonably estimable at this time. Due to the uniqueness of individual project requirements, there is not enough information to determine the type of, and how much containment would be required. AOC has determined the lower level estimate of potential containment cost could be up to \$98.5 million.

The accrued and potential Contingent and Environmental Cleanup Cost Liabilities, as of September 30, 2017, and 2016 are shown below.

Dollars in thousands		
Contingent and Environmental Liabilities	2017	2016
Contingent Liabilities	\$-	\$-
Estimated Cleanup Cost Liabilities	77,683	75,929
Total	\$77,683	\$75,929

In FY 2016, AOC revised its methodology for estimating the asbestos cleanup liability to better align with industry guidance and refine the asbestos remediation cost factors. The FY 2017 asbestos liability analysis reflects an increase of \$1.8 million over the prior year, which is attributed to the annual quantity adjustment as well as a revision of the underlying cost factors.

Fort George G. Meade, Maryland

In addition to the requirements of Technical Bulletin 2006-1, AOC is subject to various federal, state, and local environmental compliance and restoration laws, including the Clean Air Act; the Clean Water Act; the Solid Waste Disposal Act; the Safe Drinking Water Act; and the

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Estimated environmental and disposal disclosures include expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Management's review concluded that AOC is not responsible for the clean-up and remediation of previous environmental contamination on the approximately 100 acres of land at Fort George G. Meade, Maryland, which the U.S. Army transferred to AOC. The Army is responsible for the environmental clean-up of any previous contamination under CERCLA. AOC understands that the Army is actively monitoring existing contamination on the entire site, including the land transferred to AOC, and is pursuing appropriate remediation of this contamination.

Future Funded Energy Contracts

The Energy Policy Act of 1992 authorized the use of private sector financing to implement energy conservation methods and energy-efficient technologies by Federal entities. These contracts provide technical services and upfront project financing and allow Federal agencies to pay off the project costs over a period not to exceed 25 years. Per OMB Memoranda M-98-13 and M-12-21, obligations, budget authority and outlays for these energy savings projects will be recognized on an annual basis when due, rather than recording the full obligation upfront.

With approval from Congress, AOC has partnered with private energy service providers for Energy Savings Projects Contracts (ESPCs) in the Capitol, House and Senate Jurisdictions, as well as a utility provider for a cogeneration facility in the Capital Power Plant (CPP). In accordance with OMB guidance, the total capital costs for AOC's energy savings projects are obligated on an annual basis, as per the payment schedule specified in each individual contract. These projects play an important role in the AOC's strategy to reduce energy consumption by thirty percent within 10 years.

The ESPCs have helped the AOC complete conservation measures by way of:

- Converting from pneumatic to direct digital heating, ventilation and air conditioning (HVAC) control and upgrading building automation.
- Retrofitting existing light fixtures with high-efficiency lamps, ballasts, controls and reflectors; installing LED lighting in hearing rooms and expanding the lighting control rooms.

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- Upgrading transformers to high-efficiency models.
- Adding removable insulation covers to reduce heat loss from steam valves.
- Replacing aged air handling units with new energy efficient units.
- Replacing failing and defective steam traps and valves to eliminate steam loss and waste.
- Installing new motion/occupancy sensors in areas with infrequent and low occupancy levels.

Construction on the ESPCs is complete, and the projects have transitioned into training, implementation and performance phases, and are exceeding their expected energy saving targets.

In FY 2016 AOC entered into a contract with Washington Gas Light Company to construct a cogeneration (COGEN) facility. Cogeneration, also known as combined heat and power, uses a single fuel source and simultaneously produces electricity and heat. The Capitol Power Plant's cogeneration facility will use natural gas in a combustion turbine to generate electricity and heat, increasing system reliability, improving efficiency and saving taxpayer dollars. This facility will provide heat and electricity for use by AOC and its jurisdictions and other Federal agencies, with excess capacity being sold potentially to non-Federal entities as well. The COGEN project is expected to be completed by FY 2018 and will be paid off, upon completion, in 23 annual installments ranging from \$3 million – \$5 million each year. AOC expects that these payments will be made from utility savings and additional revenues that result from the operations of the COGEN facility.

NOTE 15: Leases

As of September 30, 2017, AOC is committed to various non-cancelable leases primarily covering administrative office space and storage facilities, motor vehicles, and office equipment. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

Capital Leases

Capital leases have initial or remaining non-cancelable lease terms in excess of one year and the capital lease liability is amortized over the term of the lease. At the end of the current reporting period, AOC had one real property (building) capital lease for the Senate Sergeant at Arms Warehouse facility in Landover, MD. As of September 30, 2017, and 2016, the present value of the future minimum lease payments for this capital lease is as follows:

At September 30, 2017	
Dollars in thousands	
Fiscal Year	Total
2018	845
2019	845
2020	845
2021	845
2022	845
Thereafter	2,535
Total Minimum Future Lease Payment	\$6,760
Less: Imputed Interest	\$(1,139)
Total Capital Lease Liability	\$5,621

At September 30, 2016	
Dollars in thousands	
Fiscal Year	Total
2017	915
2018	845
2019	845
2020	845
2021	845
Thereafter	3,380
Total Minimum Future Lease Payment	\$7,675
Less: Imputed Interest	(1,443)
Total Capital Lease Liability	\$6,232

Operating Leases

AOC currently has leases and occupancy agreements with the General Services Administration (GSA), Government Printing Office (GPO) and other commercial vendors for office and storage space as well as rentals of equipment and vehicles. These leases expire at various dates.

As of September 30, 2017 the aggregate of future payments due under non-cancelable operating leases and occupancy agreements are as follows:

Dollars in thousands			
Fiscal Year	Real Property	Personal Property	Total
2017	\$11,591	\$96	\$11,687
2018	7,079	29	7,108
2019	4,623	-	4,623
2020	2,585	-	2,585
2021	906	-	906
Thereafter	96	-	96
Total	\$26,880	\$125	\$27,005

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NOTE 16: Other Liabilities

As of September 30, 2017, and 2016, these liabilities consist of accrued accounts payable and miscellaneous receipts that are to be forwarded to Treasury (intragovernmental custodial liabilities). Miscellaneous receipts include, but are not limited to, flag-flying fees prior to May 2017, rent from the Monocle restaurant and steam and chilled water collections over the Congressional cap.

These liabilities, which are classified as current as of September 30, 2017, and 2016, are as follows:

Dollars in thousands		
Other Liabilities	2017	2016
Intragovernmental		
Custodial Liability	\$55	\$49
Other	-	580
Liability for Deposit Funds, Clearing Accts & Undeposited Collections	-	-
Total Intragovernmental	\$55	\$629
With the Public		
Other	\$38,012	\$30,335
Total With the Public	\$38,012	\$30,335
Total	\$38,067	\$30,964

NOTE 17: Imputed Financing

To measure the full cost of activities, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, requires that total costs of programs include imputed financing. Such costs result when an entity receives unreimbursed services from other U.S. government entities.

Imputed financing consists of future retirement benefits for AOC employees that are paid on its behalf by the Office of Personnel Management (OPM), campus-wide capital infrastructure projects performed by another federal agency, and Treasury or Office of Compliance (OOC) judgment fund payments, as applicable.

With some exceptions, employees participate in one of three defined benefit retirement programs based on their employment start date: employee and employer

contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), the Civil Service Retirement Offset, or the Federal Employees Retirement System - all administered by OPM. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan, as authorized by the Federal Employees Retirement System Act of 1986. The Federal Retirement Thrift Investment Board administers this Plan.

Civil Service Retirement System (CSRS): According to PL 99-335, all employees hired prior to January 1, 1987, could elect CSRS or CSRS Offset. The CSRS provides a basic annuity and Medicare coverage. The CSRS fund covers most employees hired prior to January 1, 1984. AOC and the employee contribute to Medicare at the rate prescribed by law. AOC does not match contributions to the TSP for employees who participate in the CSRS.

Civil Service Retirement System Offset: CSRS Offset generally covers those employees who have had a break in their CSRS service of more than one and less than five years by the end of 1986. AOC and the employee contribute to Social Security and Medicare at the rates prescribed by law. AOC does not match contributions to TSP for participating employees in the CSRS Offset.

Federal Employee Retirement System (FERS): According to PL 99-335, employees with less than five years of creditable civilian service, as of the effective date in 1986, were automatically converted to FERS. In addition, during certain periods in 1987, 1988 and 1998, employees hired before January 1, 1984, could choose to participate in FERS. This system consists of Social Security, a basic annuity plan and the TSP.

AOC and the employee contribute to Social Security and Medicare at rates prescribed by law. In addition, AOC is required to contribute to the TSP a minimum of 1 percent per year of the basic pay of employees covered by this system. AOC also matches a voluntary employee contribution up to 3 percent dollar-for-dollar, and another 2 percent is matched 50 cents on the dollar.

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Imputed Financing for the periods ending September 30, 2017, and 2016 is as follows:

Dollars in thousands		
Imputed Financing, by Type	2017	2016
Pensions		
CSRS	\$1,401	\$1,875
CSRS Offset	744	882
FERS	34,343	33,547
Less: Contributions	(32,817)	(31,711)
Subtotal: Employee Pensions	\$3,671	\$4,593
Health	10,315	11,966
Life Insurance	\$35	33
Subtotal: All Employee Benefits	\$14,021	\$16,592
Other Agency – Campus Infrastructure	10,617	10,261
Department of Justice-Treasury Judgement Fund	-	122
Office of Compliance-Settlement and Awards Fund	680	-
Total	\$25,318	\$26,975

NOTE 18: Net Cost of Operations Related to Payroll

The SNC reports AOC's gross and net cost by responsibility segment. A responsibility segment is the organizational component (i.e., jurisdiction) that carries out a major line of activity and whose top management represent AOC's Executive Leadership Team (ELT). The net cost of operations is the gross cost less any earned revenues.

Expenses for salaries and related benefits for the periods ending September 30, 2017, and 2016, are shown in the table below. These amounts were approximately 42 and 41 percent of the annual gross cost of operations for each respective year. This includes actual payroll and benefit expenses as well as imputed federal employee benefit costs paid by OPM. The amount identified as payroll expense represents actual expenditures and does not include accruals which are shown as other expenses.

Net Cost of Operations Related to Payroll as of September 30, 2017, and 2016 is as follows:

Dollars in thousands	2017	2016
Expenses for Payroll & Related Benefits		
Payroll Expense	\$252,559	\$246,103
Benefit Expense	\$(4,132)	-
Imputed Costs (payroll - see Note 17)	14,021	16,592
Other Expenses Not Requiring Budget - Payroll	(109)	21
Employer Contribution to Employee Benefits	4,062	4,242
Total Expenses for Payroll & Related Benefits	\$266,401	\$266,958
Total Gross Cost	\$634,952	\$653,836
Payroll related expenses to Gross Costs (%)	42%	41%

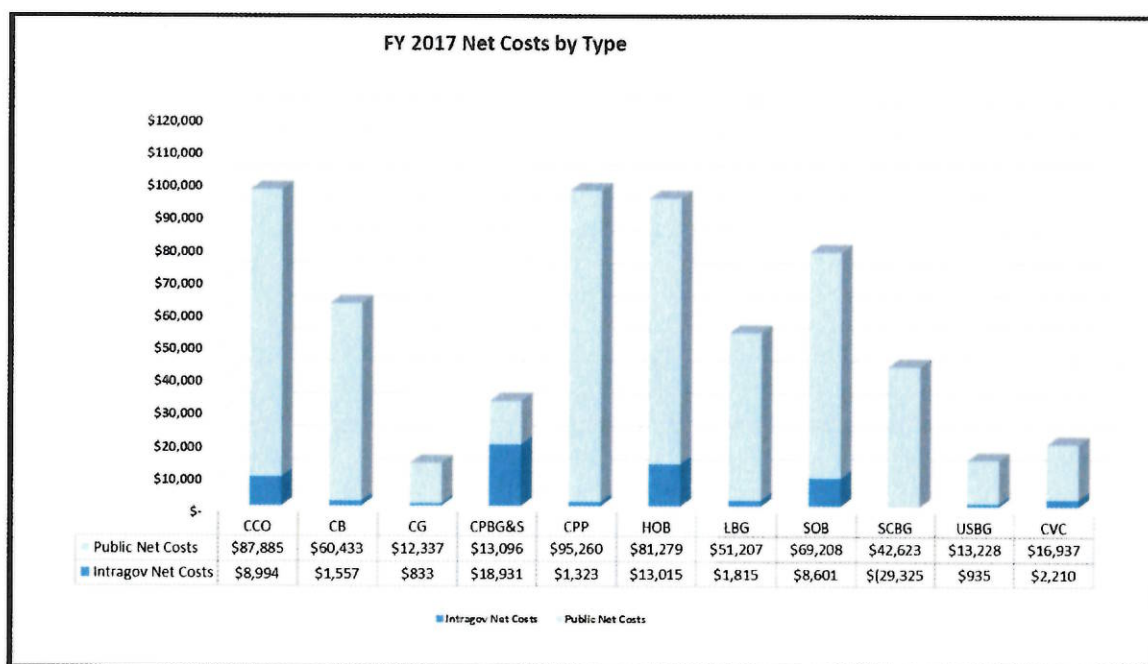
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NOTE 19: Net Cost by Type

AOC's net cost of operations for the periods ending September 30, 2017, and 2016 as reported in the SNC are \$575 million and \$604.9 million and, respectively. The table below highlights AOC net cost by jurisdiction.

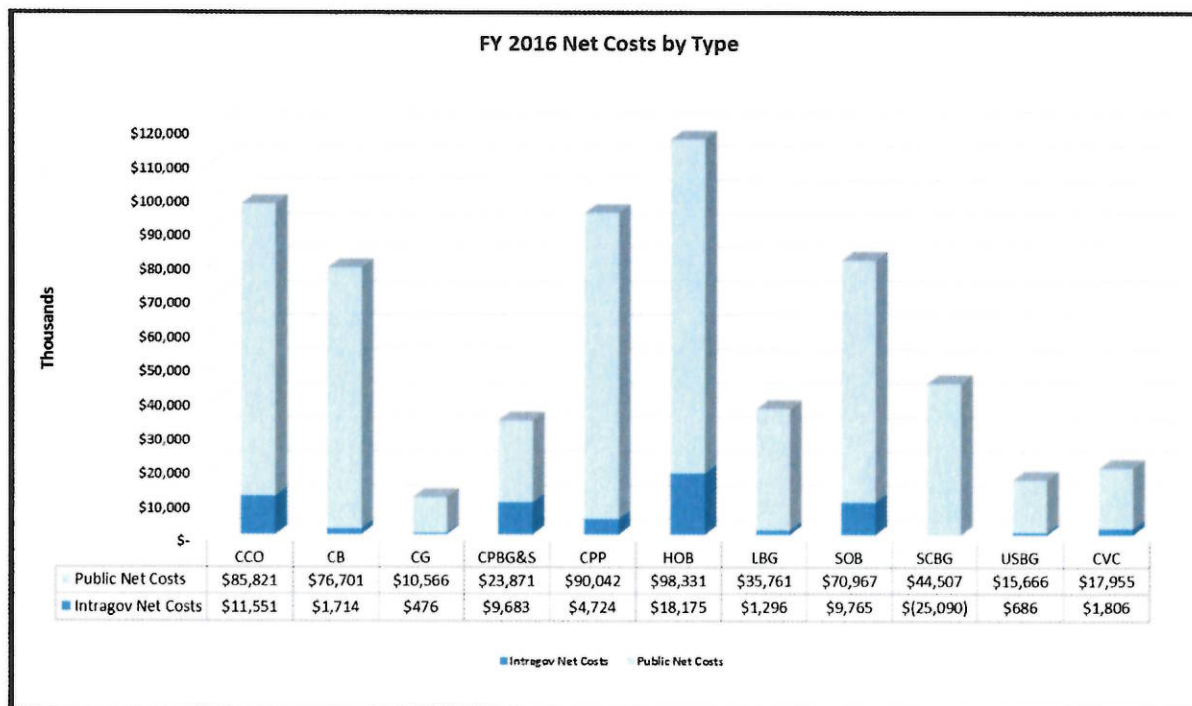
Dollar in thousands		
Net Cost by Jurisdiction	2017	2016
Capital Construction and Operations (CCO)	\$ 96,879	\$ 97,373
Capitol Building (CB)	\$ 61,990	\$ 78,415
Capitol Grounds (CG)	\$ 13,170	\$ 11,042
Capitol Police Buildings, Grounds, and Security (CPBG&S)	\$ 34,722	\$ 33,554
Capitol Power Plant (CPP)	\$ 96,583	\$ 94,766
House Office Buildings (HOB)	\$ 94,294	\$ 116,506
Library Buildings and Grounds (LBG)	\$ 53,022	\$ 37,057
Senate Office Buildings (SOB)	\$ 77,809	\$ 80,732
U.S. Supreme Court Buildings and Grounds (SCBG)	\$ 13,298	\$ 19,417
U.S. Botanic Garden (USBG)	\$ 14,163	\$ 16,352
U.S. Capitol Visitor Center (CVC)	\$ 19,147	\$ 19,761
Total	\$ 575,077	\$ 604,975

The charts below separate these costs² by Intragovernmental and With the Public to provide additional details on the nature of these costs.



² Amounts are reflected in absolute value

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Intragovernmental activities comprise payments to other federal agencies for services provided such as General Service Administration (GSA) for leases, Federal Occupational Health (FOH) for training, and Department of Labor (DOL) for payroll and benefits related expenses. Activities with the public include vendor payments and employees' payroll expenses.

NOTE 20: Reconciliation of SCNP Appropriations to SBR

Amounts reported as Appropriations Received on the Statement of Changes in Net Position (SCNP) are \$632.8 million and \$622.9 million for FY 2017 and FY 2016, respectively. These amounts consist of funds congressionally appropriated to the agency within the current fiscal year. Amounts reported as Appropriations received on the Combined Statement of Budgetary Resources (SBR) are \$632.8 million and \$597 million for FY 2017 and FY 2016, respectively. For the prior year, FY 2016, the Statement of Budgetary Resources (SBR) Appropriation line consisted of appropriations received, current year transfers, actual repayments of debt and new budget authority totaling \$597 million. Whereas in the current year, FY 2017, the Appropriation line no

longer reflects borrowing authority – this amount is reported on the Borrowing Authority line of the SBR.

The difference of \$25.8 million between the two statements in FY 2016 is attributed to the semi-annual debt repayment to the Bank of New York. For FY 2017 there are no AOC operations within the current reporting period that would result in a material difference between the two statements.

NOTE 21: Undelivered Orders at the End of the Period

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, the amount of budgetary resources obligated but not delivered must be disclosed separately. Amounts obligated comprise contracts with vendors for acquisitions of goods and services including contractual support, constructions projects, and CVC inventory purchases. Undelivered orders for the periods ending September 30, 2017, and 2016 are \$290 million and \$318 million, respectively. This is different from the unpaid obligations shown on the SBR which include undelivered orders and delivered orders (unpaid).

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NOTE 22: Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government

The FY 2019 Budget of the United States Government (President's Budget) presenting the actual amounts for the year ended September 30, 2017 is scheduled for publication in February 2018. When available the President's Budget is reconciled to the agency Combined Statement of Budgetary Resources (SBR) to identify differences. Upon publication, AOC's budget can be found on the Office of Management and Budget (OMB) website (<https://www.whitehouse.gov/omb/budget/Appendix>) under Legislative branch.

Dollars in Millions				
Reconciliation of SBR to Budget				
	Budgetary Resources	Obligations Incurred	Net Outlays	Distributed Offsetting Receipts
Combined Statement of Budgetary Resources (SBR)	1,254	739	514	-
Items on SBR - Not on Budget:				
Expired Funds	(16)	-	-	-
Other SBR Adjustments:		13	11	-
Budget of the United States Government:	<u>1,238</u>	<u>752</u>	<u>525</u>	<u>-</u>

The differences between the FY 2016 comparative amounts presented on the SBR and the actual amounts published in the FY 2018 President's Budget are due to the activity from expired funds and offsetting collections that are on the SBR but are not in the President's Budget. Additionally, audit adjustments and other rounding differences may be reflected on the SBR.

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NOTE 23: Reconciliation of Net Cost of Operations to Budget

FASAB requires a reconciliation of proprietary and budgetary information (the former Statement of Financing) in a way that helps users to relate the two. The objective is to provide an explanation for the differences between budgetary and financial (proprietary) accounting and is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

Most entity transactions are recorded in both budgetary and proprietary accounts. However, because different accounting bases are used, some transactions may appear in only one set of accounts (e.g., accrual of workers' compensation liabilities is only recorded in proprietary records). Not all obligations or offsetting collections may result in expenses or exchange revenue (e.g., a building purchase is capitalized in proprietary accounts).

Exchange revenue with the public consists of revenues received for services provided, such as access to the Senate Health and Fitness Facility and House Wellness Center, as well as rent and interest. Exchange revenue with federal entities consists of revenue from services provided, such as steam and chilled water, work performed on reimbursable projects, and reimbursement for the TMFJB.

Resources Used to Finance Activities reflects the budgetary resources obligated and other resources used to finance AOC activities. The obligations of budgetary resources are net of offsetting collections, recoveries and receipts. Other resources are financing sources that increase net position but are not budgetary resources (e.g., donated property or imputed costs).

Resources Used to Finance Items Not Part of the Net Cost of Operations includes resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the SNC. This item includes undelivered orders reflected in net obligations but not part of current period SNC. It also includes budgetary resources and obligations recognized in the current period that do not affect the net cost of operations (e.g., an acquisition of assets reflected in net obligations but not in SNC).

Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the SNC for the current period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Costs such as contingent liabilities and workers' compensation are not always funded in the period the costs are incurred and are included in this item.

Components Not Requiring or Generating Resources includes items that are recognized as part of the net cost of operations for the period but will not generate or require the use of resources, such as depreciation and amortization.

The reconciliation for the periods ending September 30, 2017, and 2016 is as follows:

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Dollars in thousands		
Reconciliation of Net Cost of Operations to Budget	2017	2016
Resources Used to Finance Activities		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	\$ 663,083	\$ 739,462
Less: Spending Authority from Offsetting Collections and Recoveries	(67,154)	(114,414)
Obligations Net of Offsetting Collections & Recoveries	595,929	625,048
Less: Offsetting Receipts	-	-
Net Obligations	595,929	625,048
Other Resources		
Transfers In / (Out) Without Reimbursement	98,934	157
Imputed Financing	25,318	26,975
Net Other Resources used to Finance Activities	124,252	27,132
Total Resources Used to Finance Activities	720,181	652,180
Resources Used to Finance Items not Part of the Net Cost of Operations (NCOO)		
Change in Budgetary Resources Obligated for Goods, Services and Benefits		
Ordered but not yet Provided	(45,540)	83,695
Resources that Fund Expenses Recognized in Prior Periods	(1,515)	10,717
Budgetary Offsetting Collections and Receipts that do not affect NCOO	45,583	(20)
Resources that Finance the Acquisition of Assets	255,615	83,270
Total Resources Used to Finance Items not Part of NCOO	254,143	177,662
Total Resources Used to Finance Net Cost of Operations	466,038	474,518
Components of Net Cost of Operations (NCOO) that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods	(425)	(176)
Other	(1,549)	(9,767)
Total Components of NCOO that will Require or Generate Resources in Future Periods	(1,974)	(9,943)
Components not Requiring or Generating Resources		
Depreciation and Amortization	108,664	98,788
Revaluation of Assets or Liabilities	4	6
Other	2,345	41,606
Total Components of NCOO that will not Require or Generate Resources	111,013	140,400
Total Components of Net Cost of Operations (NCOO) that will not Require or Generate Resources in the Current Period	109,039	130,457
Net Cost of Operations	\$ 575,077	\$ 604,975