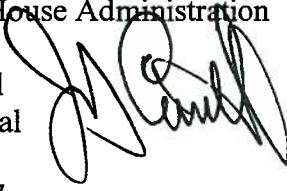


Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: The Honorable Robert A. Brady, Chairman
Committee on House Administration

FROM: James J. Cornell
Inspector General 

DATE: August 13, 2007

SUBJECT: Final Report - Audit Of The Financial Statements For The Fiscal Year Ended
September 30, 2006 (Report No. 07-HOC-08)

The attached report presents the results of the audit of the U.S. House of Representatives' (House) annual financial statements for the fiscal year ended September 30, 2006. Once again, the House received an "unqualified opinion" on its financial statements. An "unqualified opinion" is the best rating given by auditors to financial statements. It means the auditors did not find any financially material discrepancies and found nothing to suggest the amounts on the financial statements were misstated. The Office of Inspector General contracted with Cotton & Company LLP, Certified Public Accountants, to perform the audit. We have highlighted the results of the audit in the attached executive summary.

The results of the audit were discussed with the Chief Administrative Officer (CAO) throughout the audit, and the CAO concurred with all of the reported internal control weaknesses and recommendations for corrective action. The CAO's response is included in the Management Comments section of the report on page 71.

If you have any questions or require additional information regarding this report, please call me at (202) 226-1250.

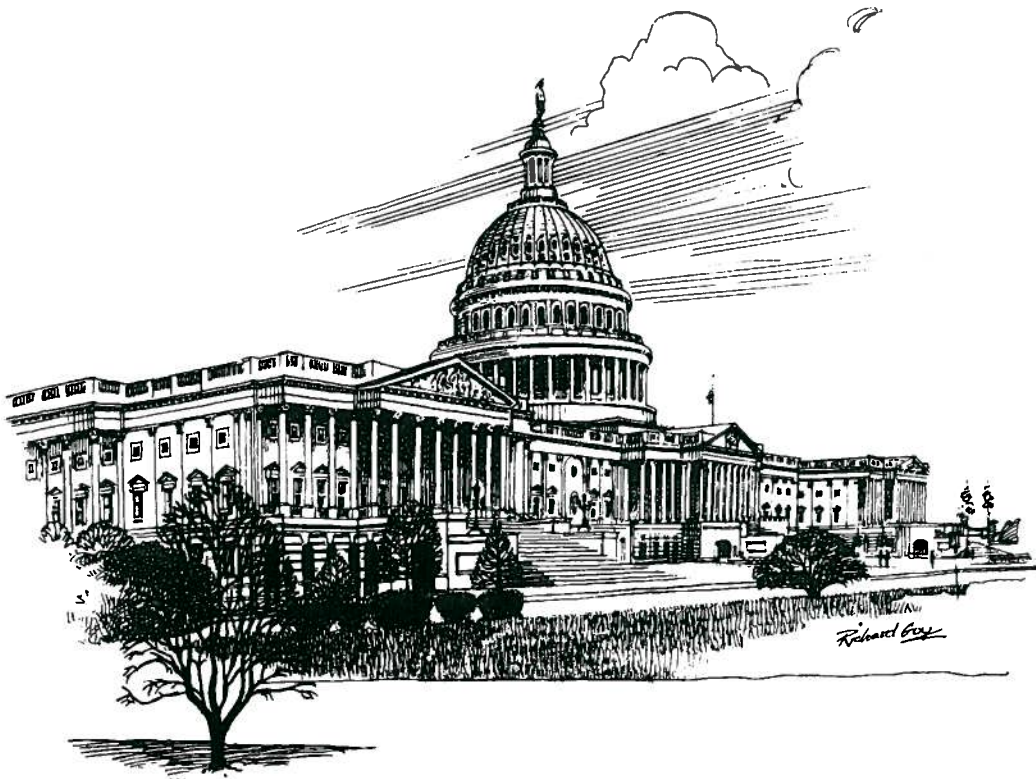
Attachments



Financial Statements

Audit Report

*Audit Of The Financial Statements
For The Year Ended
September 30, 2006
Report No. 07-HOC-08
August 13, 2007*



EXECUTIVE SUMMARY

Results Of Audit

The House continued to make progress during the past year in improving its financial management and operations. For the ninth year, the independent auditors expressed an “unqualified opinion” on the House’s financial statements; reporting that the financial statements fairly present, in all material respects, the financial position of the House and the results of its operations and cash flows in conformity with generally accepted accounting principles. In addition, the *Independent Auditor’s Report on Compliance with Laws and Regulations* identified no instances of noncompliance.

The *Independent Auditor’s Report on Internal Control* identified two internal control weaknesses--both of which are reportable conditions. The reportable conditions are associated with the financial information system and the financial reporting internal control framework. These internal control weaknesses were previously reported for the year ended December 31, 2005.

During fiscal year 2006, the House implemented or initiated corrective actions to address the 32 prior audit recommendations contained in last year’s report. Due to the House’s progress towards improving financial-related activities, we were able to close (i.e., fully implemented or otherwise resolved) 15 of the 32 prior recommendations.

Recommendations

This report contains 41 recommendations consisting of 32 prior recommendations, for which corrective actions are in varying stages of implementation, and 9 new recommendations.

Management Response

The CAO responded to the draft *Independent Auditor’s Report on Internal Control* on June 7, 2007. In his response, which is included in its entirety as an appendix to this report, the CAO concurred with all of the reported internal control weaknesses and recommendations for corrective action. The OIG believes this approach will satisfy the intent of the auditor’s recommendation.

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the accompanying Consolidated Statement of Financial Position of the U.S. House of Representatives (House) as of September 30, 2006, and 2005, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. These financial statements are the responsibility of the Members and administrative management of the House. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the House as of September 30, 2006, and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules, Consolidating Statements of Financial Position, Operations, and Cash Flows, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated April 30, 2007, on our consideration of the House's internal control over financial reporting and our tests of its compliance with applicable laws, rules, and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of the audits, should be read together with this report.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Matthew H. Johnson".

Matthew H. Johnson, CPA
Partner

April 30, 2007
Alexandria, Virginia

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Financial Statements

U.S. House of Representatives
Consolidated Statement of Financial Position
as of September 30, 2006 and September 30, 2005

	<u>2006</u> <u>Consolidated</u>	<u>2005</u> <u>Consolidated</u>
ASSETS		
Fund Balance with U.S. Treasury (Note 4)	\$ 174,705,449	\$ 212,013,832
Cash (Note 4)	1,673	120
Fund Balance with U.S. Treasury and Cash	<u>174,707,122</u>	<u>212,013,952</u>
Accounts Receivable, Net (Note 5)	745,799	1,141,708
Advances and Prepayments (Note 6)	2,707,359	4,055,971
Inventory	1,883,757	1,325,633
Property and Equipment, Net (Note 7)	<u>48,844,205</u>	<u>54,584,235</u>
Total Assets	<u>\$ 228,888,242</u>	<u>\$ 273,121,499</u>
LIABILITIES AND NET POSITION		
Accounts Payable (Note 9)	\$ 31,686,613	\$ 25,356,370
Capital Lease Liabilities (Note 8)	1,188,252	1,258,747
Accrued Funded Payroll and Benefits (Note 10)	8,057,874	7,755,802
Accrued Unfunded Annual Leave and Workers' Compensation (Note 10)	10,542,142	9,405,463
Deferred Credits (Note 11)	720,599	903,087
Unfunded Workers' Compensation Actuarial Liability (Note 12)	19,610,394	18,537,652
Other Liabilities	<u>414,878</u>	<u>374,858</u>
Total Liabilities	<u>72,220,752</u>	<u>63,591,979</u>
Unexpended Appropriations	121,516,521	166,493,777
Cumulative Results of Operations	<u>35,150,969</u>	<u>43,035,743</u>
Total Net Position (Note 13)	<u>156,667,490</u>	<u>209,529,520</u>
Total Liabilities and Net Position	<u>\$ 228,888,242</u>	<u>\$ 273,121,499</u>

U.S. House of Representatives
Consolidated Statement of Operations
for the Years Ended September 30, 2006 and September 30, 2005

	2006 Consolidated	2005 Consolidated
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ 2,817,117	\$ 2,984,305
Sales of Services to Federal Agencies	4,772,769	6,151,926
Sales of Services to the Public	1,025,913	745,167
Interoffice Sales (Note 14)	0	0
Other Revenue	662,440	574,296
Total Revenue from Operations	9,278,239	10,455,694
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received (Note 15)	1,251,428,239	1,178,153,355
Appropriations Yet To Be Received (Note 15)	4,055,919	4,071,204
Imputed Financing Source (Note 16)	57,557,337	53,898,845
Total Revenue and Financing Sources	\$ 1,322,319,734	\$ 1,246,579,098
EXPENSES		
Personnel Compensation	\$ 697,824,676	\$ 672,385,410
Benefits (Note 16)	293,609,713	277,737,350
Postage and Delivery	33,964,506	16,772,839
Repairs and Maintenance	53,346,715	53,112,983
Depreciation and Amortization (Note 7)	20,924,290	21,637,129
Rent, Utilities, and Communications	26,465,487	25,726,780
Telecommunications	27,302,317	27,283,288
Supplies and Materials	15,368,008	16,635,462
Travel and Transportation	36,490,909	33,538,007
Contract, Consulting, and Other Services	67,369,517	71,697,077
Printing and Reproduction	28,508,206	12,800,156
Subscriptions and Publications	12,118,166	7,484,729
Cost of Goods Sold	6,235,174	8,462,940
Other Expenses	511,993	165,925
Bad Debts	367,810	40,499
Interest on Capital Leases	230,927	242,928
Total Expenses	\$ 1,320,638,414	\$ 1,245,723,502
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	\$ 1,681,320	\$ 855,596
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 209,529,520	\$ 198,779,660
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	1,681,320	855,596
Plus (Minus) Non-Operating Changes	(54,543,350)	9,894,264
Net Position, Ending Balance	\$ 156,667,490	\$ 209,529,520

U.S. House of Representatives
Consolidated Statement of Cash Flows
for the Years Ended September 30, 2006 and September 30, 2005

	<u>2006</u> <u>Consolidated</u>	<u>2005</u> <u>Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and Financing Sources over Expenses	\$ 1,681,320	\$ 855,596
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(1,149,082,842)	(1,077,719,070)
(Increase)/Decrease in Accounts and Interoffice Receivable	395,909	(881,314)
(Increase)/Decrease in Advances and Prepayments	1,348,612	4,401,067
(Increase)/Decrease in Inventory	(558,124)	32,946
Increase/(Decrease) in Accounts and Interoffice Payable	6,330,243	1,352,751
Increase/(Decrease) in Other Accrued Liabilities	2,369,025	(357,013)
(Gain)/Loss on Disposal of Assets	494,493	165,925
Depreciation and Amortization	20,924,290	21,637,129
Net Cash Provided/(Used) by Operating Activities	<u>(1,116,097,074)</u>	<u>(1,050,511,983)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(14,575,436)</u>	<u>(16,162,781)</u>
Net Cash Provided/(Used) by Investing Activities	<u>(14,575,436)</u>	<u>(16,162,781)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	1,101,125,520	1,090,048,193
Funds Returned to the U.S. Treasury	(7,689,345)	(7,753,623)
Principal Payment on Capital Lease Liabilities	<u>(70,495)</u>	<u>(58,492)</u>
Net Cash Provided/(Used) by Financing Activities	<u>1,093,365,680</u>	<u>1,082,236,078</u>
Net Cash Provided/(Used) by Operating, Investing, and Financing Activities	(37,306,830)	15,561,314
Fund Balance with U.S. Treasury and Cash, Beginning	<u>212,013,952</u>	<u>196,452,638</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 174,707,122</u>	<u>\$ 212,013,952</u>

Notes to the Financial Statements

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress.

To help carry out its constitutional duties, the House creates committees of Members and assigns them responsibility for gathering information, identifying policy problems, proposing solutions, and reporting bills to the full chamber for consideration. The House appoints unelected officers to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The consolidated comparative financial statements of the House provide financial information on the activities of all entities, which are subject to the authority vested in the House by the U.S. Constitution, public laws, and rules and regulations adopted by the membership of the House.

These financial statements reflect the organizational structure of the House under the 109th Congress. The following is a summary of the entity groupings as they appear in the fiscal year 2006 consolidating financial statements:

House **Members** are elected from congressional districts of approximately equal population. The financial information aggregates transactions of the Member districts and Washington, D.C. offices, and includes 435 Representatives; four Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 109th Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Committees of the House under the 109th Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce

- Committee on Financial Services
- Committee on Government Reform
- Committee on Homeland Security
- Committee on House Administration
- Committee on International Relations
- Committee to Investigate the Preparation for and Response to Hurricane Katrina
- Committee on the Judiciary
- Committee on Resources
- Committee on Rules
- Committee on Science
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Ways and Means
- Permanent Select Committee on Intelligence

The House **Leadership Offices** financial information aggregates transactions of:

- Speaker of the House
- Majority and Minority Leaders
- Majority and Minority Whips
- Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

The **Officers and Legislative Offices** financial information aggregates transactions of all legislative support and administrative functions provided to Members, Committees, and Leadership offices, including:

- Chaplain
- Chief Administrative Officer
- Office of Emergency Planning, Preparedness and Operations
- Clerk of the House
- Office of the General Counsel
- Office of Inspector General
- Office of the Historian
- Office of the Law Revision Counsel
- Office of the Legislative Counsel
- Parliamentarian
- Sergeant at Arms

The **Joint Functions** financial information aggregates transactions of the joint activities of the House and the Senate to the extent that the House funds these functions in whole or in part. House administrative management does

not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician
Joint Committee on Taxation, which has members
from both the House and the Senate

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include the accounts and significant activities of the House. The consolidated financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies are:

Library of Congress
Congressional Budget Office
Government Accountability Office
Government Printing Office
U.S. Botanic Garden
Architect of the Capitol
U.S. Capitol Police

Functions jointly shared between the House and the Senate are included in the consolidating financial statements to the extent their operations are funded by House appropriations. These consist of :

Attending Physician
Joint Committee on Taxation, which has
members from both the House and the Senate

All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information.

B. Basis of Accounting

The House, in accordance with generally accepted accounting principles, utilizes the accrual basis of accounting, which provides for the recognition of events as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The accrual basis of accounting contributes significantly to the development of accurate cost information needed to report the financial position and results of operations.

Effective fiscal year 2006, the House changed its financial statement reporting from calendar year (January-December) to fiscal year reporting, (October 1, 2005 to September 30,

Eliminations on the consolidating financial statements are used to negate the effect of financial transactions between House entities. Consolidated House financial information would be misleading if inter-entity transactions were not eliminated.

2006). The 2005 amounts in the comparative statements are different from the published amount for calendar year 2005 due to the fiscal year conversion.

C. Fund Balance with the U.S. Treasury and Cash

Funds available to the House to pay current liabilities and finance authorized purchases are held with the U.S. Treasury.

- Fund Balance with the U.S. Treasury includes House accounts, as well as the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House.
- For purposes of the Consolidated Statement of Cash Flows, funds held with the U.S. Treasury are considered cash.

D. Accounts Receivable

Accounts receivable consists of money owed the House by Federal agencies, Members, employees and/or vendors less an Allowance for Doubtful Accounts.

E. Advances and Prepayments

Advances consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. Prepayments primarily consist of prepaid subscriptions for publications and data communication services.

F. Inventory

The *Gift Shop* and the *Supply Store* maintain an inventory of goods for sale. These entities are included with Officers and Legislative Offices in the consolidating financial statements. Inventories for sale are valued at the moving weighted average method.

The *Furniture Support Services*, also included with Officers and Legislative Offices, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials. These items are not for

sale and are reflected in the financial statements at an estimated value based on the first in/first out inventory valuation method.

G. Property and Equipment

Property and equipment including computer purchases are capitalized if the unit acquisition cost is equal to or greater than \$25,000 and the item has a useful life greater than one year. Software is capitalized if the unit acquisition cost is equal to or greater than \$10,000 and the item has a useful life greater than one year. The costs of such items are recognized as assets when acquired. An appropriate portion of an asset's value is reduced and an expense recognized over the accounting periods benefited by the asset's use. See Note 7, Property and Equipment, for additional information on property and equipment held by the House.

The House has possession of numerous assets that may be of significant historical and artistic value. The House does not include these assets in the financial statements. The land and buildings occupied and used by Members, officers, and employees in Washington, D.C. are under the custody of the Architect of the Capitol and are not included in the financial statements of the House.

H. Leases

The House leases office space, vehicles, computers and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases, which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. See Note 8, Lease Commitments, for additional lease information.

I. Deferred Credits

The House receives advance payments from other Federal government entities for shared services, in advance of the delivery of these services. These advance payments are recorded as deferred credits. As the services are rendered the deferred credit account is drawn down and the appropriate revenue is recognized.

J. Revenue from Operations

Revenue is recognized when goods have been delivered or services rendered.

- Sales of goods consist of Gift Shop and Supply Store sales.
- Sales of services to the public are comprised of Photography sales, Child Care fees, and Attending Physician fees.
- Interoffice sales between House entities consist of computer services, telecommunications, office supplies, framing, recording, office equipment, photography, tape duplication charges, and are eliminated on the consolidating financial statements.
- Other revenue consists of Page School room and board, and vendor commissions.

K. Appropriations to Cover Expenses

Like other Federal government organizations, the House finances most of its operations with appropriations. The expenses of Members, Committees, and Leadership offices are entirely financed with appropriations. Other House entities require appropriations to the extent the revenue generated does not cover expenses. Appropriations are considered a financing source, not a revenue, since appropriations do not result from an earnings process.

L. Postage and Delivery

Postage and delivery consists of franked mail expenses and miscellaneous postage expenses. Members' postage includes the use of the Frank, which is charged to the Members' Representational Allowance. Miscellaneous postage expenses include courier charges, stamps, and rental of post office boxes.

M. Repairs and Maintenance

Repairs and maintenance include all expenses related to the maintenance and upkeep of House equipment in both Washington, D.C. and in Members' district offices, as well as related operating lease payments on various types of equipment. In addition, property and equipment purchases below the capitalization thresholds discussed in Note 2G, Property and Equipment, are classified as repairs and maintenance.

N. Depreciation and Amortization

The cost of capital assets is allocated ratably over an asset's useful life as depreciation or amortization expense. The

House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible assets such as furniture, equipment, and vehicles. Amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

O. Rent, Utilities, and Communications

Rent and utilities consist primarily of the rental of district offices by Members and any related utility payments. Communications costs consist of charges for news wire services, satellite fees, and external network access services.

P. Telecommunications

Telecommunications expense includes local and long distance telephone service in Washington, D.C. and in Members' district offices.

Q. Supplies and Materials

Supplies and materials include office supplies used by the House and medical supplies used by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the *Gift Shop* and the *Supply Store*.

R. Travel and Transportation

Travel and transportation expenses include official travel by Members, Committees, and Leadership offices; travel by other House officers and employees and congressional delegations; freight and shipping costs; and expenses related to the lease and maintenance of vehicles.

S. Contract, Consulting, and Other Services

Contract, consulting, and other services include the cost of management services in House Postal Operations, annual audit fees, the cost of studies and analyses requested by Committees, as well as computer, recording, janitorial, and catering services.

T. Printing and Reproduction

This category primarily includes printing and reproduction of constituent communications. Also included are photography services, and printing and reproduction of

items such as informational publications and reference materials.

U. Subscriptions and Publications

Subscriptions and publications include the cost of periodicals and news services.

V. Cost of Goods Sold

Cost of goods sold includes the cost of products sold in the retail operations of the *Gift Shop* and the *Supply Store*, and the cost of services provided to federal and non-federal entities, such as the House postal facility.

W. Loss or Gain on Disposal of Assets

A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received.

X. Annual Leave

Annual leave for the House Officers and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balance as of September 30, 2006 is calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514. See Note 10, Accrued Payroll and Benefits and Leave, for additional information.

Y. Federal Employee and Veterans Benefits

This benefit expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Also included is the current period expense for the future cost of providing retirement benefits and life insurance to House employees. See Note 16, Benefits, for additional information.

Z. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenue and expense reported during the period. Actual results could differ from those estimates.

NOTE 3 - INTRA-GOVERNMENTAL FINANCIAL ACTIVITIES

The House has significant intra-governmental financial activities with Executive and Legislative Branch entities. These financial activities include transactions and agreements to purchase goods and services.

Transactions with Executive Branch Agencies

The House's most significant interagency transactions are with the:

- U.S. Postal Service for postage.
- Department of Defense for contractual and maintenance services
- U.S. Department of Labor (DOL) for unemployment and workers' compensation.
- General Services Administration (GSA) for the use and upkeep of office space in certain Members' district offices, office supplies and leased vehicles.
- U.S. Department of the Interior, U.S. Geological Survey, National Business Center for financial system contract and consulting services.
- U.S. Department of Transportation for transit benefits program.
- Other Executive Branch agencies for special studies as requested by House Committees.

Significant cash disbursements to Executive Branch agencies during the fiscal years ended September 30, 2006 and 2005 were approximately:

Disbursements to Executive Branch Agencies	2006	2005
U.S. Postal Service	\$ 32,466,000	\$ 16,383,000
Department of Defense	513,000	2,840,000
General Services Administration	4,399,000	4,442,000
U.S. Department of Labor	2,157,000	2,645,000
U.S. Department of Transportation	1,856,000	1,535,000
U.S. Department of the Interior	519,000	517,000
Other Executive Branch Agencies	93,000	259,000

The House also reports significant financial transactions with the U.S. Department of State, which maintains and

administers the Congressional Use of Foreign Currency account on behalf of Congress. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional Committees and delegations to cover local currency expenses incurred while traveling abroad. The fund balance related to the account is included in Fund Balance with U.S. Treasury under Officers and Legislative Offices.

Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Special and Select, or Joint Committee. Therefore, all foreign currency account financial activity is reported as Committee and Leadership office travel expense.

Foreign Currency Balance with the U.S. Department of State	2006	2005
Beginning Balance	\$ 21,132,955	\$ 11,688,215
Appropriation Received	15,000,000	18,000,000
Travel Expenses:		
Leadership	(1,505,669)	(1,504,870)
Committees	(7,708,954)	(7,050,390)
Ending Balance	\$ 26,918,332	\$ 21,132,955

Transactions with Legislative Branch Entities

The House pays for support services provided by other Legislative Branch entities. These entities receive their own appropriations and operate autonomously from the House's administrative functions. The House received support services from the United States Senate in 2006. The House also receives support services from the Government Printing Office and the Architect of the Capitol.

Cash Disbursements to Legislative Branch Entities	2006	2005
Architect of the Capitol	\$ 233,000	\$ 243,000
Government Printing Office	79,000	150,000
United States Senate	967,000	546,000

The House also receives payments for services provided to the Congressional Budget Office and the Architect of the

Capitol and for the reimbursement of services shared with other Federal government entities. In 2006 and 2005, the House shared services with the Library of Congress, and the United States Senate.

Cash Receipts from Legislative Branch Entities	2006	2005
Library of Congress	\$ 4,120,000	\$ 3,872,000
United States Senate	315,000	403,000
Architect of the Capitol	294,000	327,000
Congressional Budget Office	93,000	91,000

NOTE 4 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

The House has appropriated and revolving fund balances with the U.S. Treasury. The balances, as of September 30, 2006 and 2005 were:

Fund/Cash Accounts Maintained by the House	2006	2005
Fund Balance with Treasury/Cash	\$ 147,788,790	\$ 190,880,997
Congressional Use of Foreign Currency	26,918,332	21,132,955
Total	\$ 174,707,122	\$ 212,013,952

The House usually receives the full amount of its appropriation at the beginning of each fiscal year.

Cash on Hand represents deposits in transit and amounts held in a commercial bank account. Cash on Hand was \$1,673 and \$120 as of September 30, 2006 and 2005, respectively.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts Receivable balances represent amounts owed the House by Federal agencies, Members, employees and/or vendors less an allowance for doubtful accounts. The Allowance for Doubtful Accounts was derived from the receivables amount owed to the House for more than six months. The House is actively pursuing these overpayments.

Accounts Receivable	2006	2005
Accounts Receivable	\$ 1,367,102	\$ 1,307,729
Less: Allowance for Doubtful Accounts	(621,303)	(166,021)
Accounts Receivable, Net	\$ 745,799	\$ 1,141,708

NOTE 6 - ADVANCES AND PREPAYMENTS

Advances and prepayments are transfers of cash to cover future expenses or the acquisition of assets. These goods and/or services are delivered in increments that span several months. Advance payments are recorded as assets. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are made for subscriptions and software licenses and are charged as expenses. At year-end, all such payments made for the previous, current and

succeeding years are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. Advances and Prepayments are:

	2006	2005
Advances	\$ 90,878	\$ 100,010
Prepayments	2,616,481	3,955,961
Total	\$ 2,707,359	\$ 4,055,971

NOTE 7 – PROPERTY AND EQUIPMENT

Software, and vehicles and equipment, including computers, are capitalized if their acquisition cost equals or exceeds \$10,000 and \$25,000, respectively. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the fiscal year end. Depreciation and

amortization expense is based on the straight-line method over an asset's estimated useful life. The change in work in process is due to numerous assets placed in service during the fiscal year. Property and equipment as of September 30, 2006 and the related depreciation and amortization expense are:

2006 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	\$ 2,985,986	\$ -	\$ 2,985,986	\$ -
Computer Software and Hardware	3	88,136,004	69,523,012	18,612,992	12,731,001
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	39,214,760	26,442,339	12,772,421	5,074,480
Motor Vehicles	5	10,474,287	3,087,032	7,387,255	2,094,857
Furnishings and Other Equipment	10	1,816,568	1,626,757	189,811	58,320
Assets Under Capital Lease	10	1,354,473	372,479	981,994	135,447
Leasehold Improvements	10	8,971,191	3,057,445	5,913,746	830,185
Total		\$ 153,744,180	\$ 104,899,975	\$ 48,844,205	\$ 20,924,290

Property and equipment as of September 30, 2005 and the related depreciation and amortization expense are:

2005 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	\$ 4,827,236	\$ -	\$ 4,827,235	\$ -
Computer Software and Hardware	3	83,776,443	62,497,452	21,278,991	15,663,146
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	35,426,553	22,780,542	12,646,011	4,492,100
Motor Vehicles	5	10,278,798	998,495	9,280,303	575,398
Furnishings and Other Equipment	10	1,710,068	1,568,300	141,768	61,778
Assets Under Capital Lease	10	1,354,473	237,033	1,117,440	135,447
Leasehold Improvements	10	7,503,829	2,211,342	5,292,487	709,260
Total		\$ 145,668,311	\$ 91,084,075	\$ 54,584,235	\$ 21,637,129

NOTE 8 – LEASE COMMITMENTS**Capital Leases**

The House enters into leases, which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the future minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the future minimum lease payments due at lease inception. Assets under capital leases consist solely of building structures. An adjustment was made to decrease capital lease liability to reflect the correct value of the asset under capital lease.

Future Capital Lease Payments Due as of September 30, 2006:

Year	
2007	\$ 301,428
2008	301,428
2009	301,428
2010	301,428
2011	301,428
Thereafter	678,213
Total Future Capital Lease Payments	\$2,185,353
Less: Imputed Interest	(997,101)
Net Capital Lease Liabilities	\$1,188,252
Unfunded Liability	\$1,188,252

Operating Leases

The House enters into various operating leases for temporary usage of office space, vehicles, hardware, and software. Leases that convey the benefits and risks of

ownership, but do not meet House capitalization criteria are also recognized as operating leases. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities. Members may lease office space in their districts through GSA or may directly lease space from the private sector. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. Members and officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination. House administration also leases hardware and software.

Future Operating Lease Payments Due as of September 30, 2006:

Year	Vehicles	Office Space	Parking	Total
2007	\$ 498,739	\$ 5,752,528	\$ 6,267	\$ 6,251,267
2008	110,471	18,458	1,580	128,929
	\$ 609,210	\$ 5,770,986	\$ 7,847	\$ 6,380,196

Lease expense for office space was \$22,640,564 and \$23,225,275 for the years ended September 30, 2006 and 2005, respectively. Lease expense for vehicles was \$1,661,266 and \$1,791,027 for the years ended September 30, 2006 and 2005, respectively.

NOTE 9 - ACCOUNTS PAYABLE

Accounts Payable balances represent amounts owed for the cost of goods and services received but not yet paid. Accounts Payable also includes amounts owed to DOL for unemployment compensation.

Accounts Payable	2006	2005
Vendor Payables	\$ 31,526,737	\$ 25,102,588
Unemployment Compensation	159,876	253,782
Total	\$ 31,686,613	\$ 25,356,370

NOTE 10 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The House has both funded and unfunded payroll, benefits and leave. A funded liability has a corresponding appropriation to liquidate it. An unfunded liability is a liability that is incurred during the current or prior year but is not payable until a future fiscal year for which an appropriation has not yet been received.

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). Sick and other types of paid leave are expensed as they are taken. Accrued payroll and benefits include salaries and associated benefits earned in September and paid in October.

The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding

the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, and Leadership offices is estimated on the financial statements. Accrued Workers' Compensation is the amount billed by Department of Labor that will be paid in subsequent fiscal years.

Accrued annual leave and accrued payroll and benefits as of September 30, 2006 and 2005 were:

Accrued Leave, Payroll and Benefits, and Workers' Compensation	2006	2005
Funded		
Accrued Payroll and Benefits	\$ 8,057,874	\$ 7,755,802
Unfunded		
Accrued Annual Leave	8,225,229	7,543,151
Accrued Workers' Compensation	<u>2,316,913</u>	<u>1,862,312</u>
Total Unfunded	\$ 10,542,142	\$ 9,405,463

NOTE 11 - DEFERRED CREDITS

The House received payments in advance of receipt of shared services from the Library of Congress, the Senate and the Department of State. The deferred credit balance as of

September 30, 2006 and 2005 was \$720,599 and \$903,087, respectively.

NOTE 12 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

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. Claims incurred for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House. The unfunded workers' compensation actuarial liability is an estimate based on actuarial calculations using

historical payment patterns to predict what costs will be incurred in the future. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. The House calculated the actuarial liability based on a model developed by DOL. The projected Unfunded Workers' Compensation Actuarial Liabilities as of September 30, 2006 and 2005 were \$19,610,394 and \$18,537,652, respectively.

NOTE 13 - NET POSITION

The components of Net Position are:

- **Unexpended Appropriations** - Appropriations are not considered expended until goods have been received or services have been rendered.
- **Total Cumulative Results of Operations:**

Cumulative Results of Operations - The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

Invested Capital - Funds used to finance capital assets such as computer hardware and software, vehicles, equipment, and inventory.

Future Funding Requirements - Known liabilities to be funded by future appropriations for accrued Annual Leave and Workers' Compensation.

Unexpended appropriations cancel at the end of the second fiscal year following the year in which appropriated. As required by law, these funds must be returned to the U.S. Treasury general account. Funds that were canceled and returned to the U.S. Treasury during fiscal years 2006 and 2005 are:

Appropriations	2006	2005
2004	\$ 7,689,345	
2003	-	7,753,623
Total	\$ 7,689,345	\$ 7,753,623

Net Position as of September 30, 2006 and 2005 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Office Supply Service revolving funds are shown in the following table:

Net Position	Net Position September 30, 2006 Totals		Net Position September 30, 2005 Totals	
Unexpended Appropriations		\$ 121,516,521		\$ 166,493,777
Cumulative Results of Operations:				
Cumulative Results of Operations	\$ 15,208,811		\$ 16,316,138	
Invested Capital	50,112,194		54,662,719	
Future Funding Requirements	(30,170,036)		(27,943,114)	
Total Cumulative Results of Operations		35,150,969		43,035,743
Total Net Position		\$ 156,667,490		\$ 209,529,520

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes result when amounts invested in capital assets and inventory exceed (or are less

than) the amounts of liabilities to be funded by future appropriations.

The Net Position table above reflects an additional cumulative results of operations line which further disaggregates activity other than invested capital or future funding requirements.

NOTE 14 - REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

Some House entities transfer costs to Members, Committees, and other House offices for goods and services provided. These entities are primarily:

- House Support Services, which transfers costs of equipment to the Members and Committees,
- House Information Resources, which transfers telecommunication charges, and
- Office Supply Service, which transfers office supply purchases and flag sales.

Some House business-like entities operate as revolving funds. A revolving fund is a budgetary structure established by statute that authorizes certain government agencies to collect user fees or revenue to finance operating expenses. In 2006, the House operated revolving fund type activities for the House Recording Studio, Net Expenses of Equipment, Page School, Office Supply Service, Child Care Center, House Services, and Net Expenses of Telecommunications..

NOTE 15 - APPROPRIATIONS TO COVER EXPENSES

Appropriations Received include current and prior year funds necessary to finance House operating expenses such as personnel and benefits costs, contract services, and travel expenses. The House recognizes appropriations to cover expenses in the same period in which the associated expense is incurred. Appropriations to cover investments in capital assets and inventory are recognized in the same period in which they are received.

Appropriations Yet To Be Received consist of expenses that are incurred in the current period, but will be funded by future appropriations. Such amounts include accrued actuarial liabilities, annual leave and workers' compensation expenses.

NOTE 16 - BENEFITS

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. A CSRS basic annuity, unreduced for age, debts to the fund, or survivor's benefits, is calculated by multiplying the highest 3 consecutive years' average salary by a percentage factor which is based on the length of Federal service. However, Members' benefits are different from those of employees. For example, a Member covered by CSRS is eligible to receive unreduced retirement benefits at age 60 if he or she has 10 years of Member service. An employee is eligible to receive reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan provides the same benefits for either Members or employees.

CSRS employees contribute a portion of their earnings to the Civil Service Retirement Fund. The House also contributes an amount to this fund. FERS employees, in addition to paying Social Security, contribute a portion of their base earnings to the FERS retirement fund. The House also contributes an amount toward the FERS retirement and Social Security funds.

Both FERS and CSRS employees can contribute to the Thrift Savings Plan (TSP) up to the IRS limit. FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP.

Member and Employee Expenses	2006	2005
Retirement Plan Contributions	\$ 130,955,863	\$ 125,198,418
Federal Employee and Veterans' Benefits	57,557,337	53,898,845
Social Security	45,906,604	43,012,110
Health Insurance	42,311,529	39,616,471
Student Loan/Fitness Center Programs	8,821,612	7,790,571
Unemployment and Workers' Compensation	1,580,366	2,024,032
Annual Leave	682,079	970,105
Death Benefits	1,303,657	899,705
Transit Benefits	2,030,798	1,744,572
Life Insurance	1,074,826	1,009,194
Workers' Compensation Actuarial Adjustment	1,385,042	1,573,327
Total	<u>\$ 293,609,713</u>	<u>\$ 277,737,350</u>

Benefits costs for the past 3 years have averaged approximately \$279 million per year.

Federal-employing entities recognize their share of the cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. This cost is included in Federal Employee and Veterans' Benefits expense. The pension expense recognized in the Statement of Operations is the current service cost for House employees less the amount contributed by the employee.

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM.

NOTE 17 - EMERGENCY PREPAREDNESS

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation.

NOTE 18 - CONTINGENCIES

The House is currently involved in two lawsuits, the probable outcomes of which are unfavorable. The amount of the first lawsuit has been estimated as an immaterial amount which has been included in Other Liabilities. The

The House does not receive an appropriation to fund this expense. Therefore, this portion of the pension expense is considered an imputed financing source to the House, and is included in the Imputed Financing Sources on the Statement of Operations. This amount was \$12,163,174 in 2006 and \$12,559,394 in 2005.

Federal-employing entities also recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in Federal Employee and Veterans' Benefits expense in the Statement of Operations. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing Sources on the Statement of Operations. This amount was \$45,394,163 in 2006 and \$41,339,451 in 2005.

Federal Employee and Veterans' Benefits (Imputed Financing Source)	2006	2005
Current Service Cost - Federal Employees Health Benefits	\$45,288,369	\$41,239,133
Current Service Cost - Federal Pensions	12,163,174	12,559,394
Current Service Cost - Federal Employees Group Life Insurance	105,794	100,318
Total	<u>\$57,557,337</u>	<u>\$53,898,845</u>

Approximately \$30 million and \$33 million were expended in 2006 and 2005, respectively.

precise amount for the second lawsuit is unknown based on the best information available as of the reporting date and is not reflected in the financial statements.

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Supplemental Financial Schedules

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Organization and Composition of Financial Statements

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**U.S. House of Representatives
Organization and Composition of
Consolidating Financial Statements**

Members

Representatives, Delegates and Resident
Commissioner
Members' Allowances and Expenses

Legislative Computer Systems
Office of Legislative Operations
Legislative Resource Center
Official Reporters
Office of Publication Services
Capitol Service Groups

Committees

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and the Workforce
Committee on Energy and Commerce
Committee on Financial Services
Committee on Government Reform
Committee on Homeland Security
Committee on House Administration
Committee on International Relations
Committee to Investigate the Preparation for and
Response to Hurricane Katrina
Committee on the Judiciary
Committee on Resources
Committee on Rules
Committee on Science
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence

Office of the Sergeant at Arms
Immediate Office
Chamber Security
Capitol Guide Service and Congressional Special
Services Office
House Garages and Parking Security

Chief Administrative Officer (CAO)
Immediate Office
Press Gallery
Periodical Press Gallery
Radio/TV Correspondents' Gallery
CAO Business Improvement Team

House Information Resources
Client Services Group
Communications Group
Information Management

Office of Human Resources
Office of Employee Assistance
ADA Services
Child Care
Office of Administration
Outplacement Services
Office of Training

House Support Services (HSS)
Contractor Management
Furniture Support Services
House Office Service Center
First Call Customer Service Center
House Gift Shop
Mail List/Processing/ Mass Mail
Office Supply Service
Office Services
Special Events
House Recording Studio
Operations Support Center
Acquisition and Account Management

Leadership Offices

Office of the Speaker
Office of the Majority Leader
House Majority Whip
Office of the Democratic Leader
Democratic Whip
House Republican Conference
House Republican Policy Committee
Democratic Caucus

Officers and Legislative Offices

Office of the Clerk
Immediate Office
Office of History and Preservation
Office of House Employment Counsel
House Page Program

Central Receiving/Warehouse	House Recording Studio
Logistics and Distribution	Page School Revolving Fund
Vendor Management	
Production Management	Office of the Chaplain
Photography	Office of Interparliamentary Affairs
	Parliamentarian
Office of Finance and Procurement	Office of the Parliamentarian
Accounting	Compilation of Precedents
Budget	Office of the Law Revision Counsel
Financial Counseling	Office of the Legislative Counsel
Office of Personnel and Benefits	Office of the General Counsel
Payroll	Office of Inspector General
Office of Member Services	Office of Emergency Planning, Preparedness and
Financial Systems	Operations
Procurement	Office of House Historian
	Technical Assistants to the Attending Physician
Revolving Funds	Congressional Executive Commission on the
Child Care Center	People's Republic of China
House Services	Commission on Security and Cooperation in Europe
House Beauty Shop	
House Barber Shop	
House Restaurant	
Stationery	
	Joint Functions
	Office of the Attending Physician
	Joint Committee on Taxation

Consolidating Statements

U.S. House of Representatives
Consolidating Statement of Financial Position
as of September 30, 2006

	Members	Committees
ASSETS		
Fund Balance with U.S. Treasury	\$ 18,900,392	\$ 6,724,615
Cash	0	0
Fund Balance with U.S. Treasury and Cash	18,900,392	6,724,615
Accounts Receivable, Net	289,098	9,120
Interoffice Receivable	0	0
Advances and Prepayments	1,016,659	255,947
Inventory	0	0
Property and Equipment, Net	272,534	3,575,062
Total Assets	\$ 20,478,683	\$ 10,564,744
LIABILITIES AND NET POSITION		
Accounts Payable	\$ 10,020,849	\$ 1,637,593
Interoffice Payable	1,340,845	223,567
Capital Lease Liabilities	0	0
Accrued Funded Payroll and Benefits	7,568,874	1,093
Accrued Unfunded Annual Leave and Workers' Compensation	4,746,056	1,596,800
Deferred Credits	0	0
Unfunded Workers' Compensation Actuarial Liability	0	0
Other Liabilities	0	0
Total Liabilities	23,676,624	3,459,053
Unexpended Appropriations	1,302,984	5,160,477
Cumulative Results of Operations	(4,500,925)	1,945,214
Total Net Position	(3,197,941)	7,105,691
Total Liabilities and Net Position	\$ 20,478,683	\$ 10,564,744

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Combined
\$ 3,373,923	\$ 143,625,927	\$ 2,080,592	\$ 0	\$ 174,705,449
0	1,673	0	0	1,673
<u>3,373,923</u>	<u>143,627,600</u>	<u>2,080,592</u>	<u>0</u>	<u>174,707,122</u>
15,314	432,141	126	0	745,799
0	1,735,206	0	(1,735,206)	0
56,793	1,307,342	70,618	0	2,707,359
0	1,883,757	0	0	1,883,757
<u>209,320</u>	<u>44,009,641</u>	<u>777,648</u>	<u>0</u>	<u>48,844,205</u>
<u>\$ 3,655,350</u>	<u>\$ 192,995,687</u>	<u>\$ 2,928,984</u>	<u>\$ (1,735,206)</u>	<u>\$ 228,888,242</u>
\$ 420,756	\$ 18,814,615	\$ 792,800	\$ 0	\$ 31,686,613
56,273	107,261	7,260	(1,735,206)	0
0	1,188,252	0	0	1,188,252
0	487,544	363	0	8,057,874
158,844	4,017,586	22,856	0	10,542,142
0	720,599	0	0	720,599
0	19,610,394	0	0	19,610,394
<u>0</u>	<u>414,878</u>	<u>0</u>	<u>0</u>	<u>414,878</u>
<u>635,873</u>	<u>45,361,129</u>	<u>823,279</u>	<u>(1,735,206)</u>	<u>72,220,752</u>
2,969,001	111,300,205	783,854	0	121,516,521
<u>50,476</u>	<u>36,334,353</u>	<u>1,321,851</u>	<u>0</u>	<u>35,150,969</u>
<u>3,019,477</u>	<u>147,634,558</u>	<u>2,105,705</u>	<u>0</u>	<u>156,667,490</u>
<u>\$ 3,655,350</u>	<u>\$ 192,995,687</u>	<u>\$ 2,928,984</u>	<u>\$ (1,735,206)</u>	<u>\$ 228,888,242</u>

U.S. House of Representatives
Consolidating Statement of Operations
for the Year Ended September 30, 2006

	<u>Members</u>	<u>Committees</u>
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ 0	\$ 0
Sales of Services to Federal Entities	0	0
Sales of Services to the Public	0	0
Interoffice Sales	0	0
Other Revenue	0	0
Total Revenue from Operations	<u>0</u>	<u>0</u>
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received	794,455,757	198,087,987
Appropriations Yet To Be Received	1,478,236	533,405
Imputed Financing Source	37,153,685	11,145,245
Total Revenue and Financing Sources	<u>\$ 833,087,678</u>	<u>\$ 209,766,637</u>
EXPENSES		
Personnel Compensation	\$ 463,948,085	\$ 127,785,206
Benefits	192,663,828	54,323,919
Postage and Delivery	33,563,246	35,125
Repairs and Maintenance	23,167,909	4,406,320
Depreciation and Amortization	280,356	1,622,413
Rent, Utilities, and Communications	24,911,329	75,718
Telecommunications	15,372,716	2,002,151
Supplies and Materials	9,187,352	1,285,804
Travel and Transportation	23,462,155	9,642,368
Contract, Consulting, and Other Services	8,621,745	6,632,705
Printing and Reproduction	28,160,402	148,336
Subscriptions and Publications	9,446,102	1,482,580
Cost of Goods Sold	0	0
Other Expenses	22,942	291,329
Bad Debts	279,511	32,663
Interest on Capital Leases	0	0
Total Expenses	<u>\$ 833,087,678</u>	<u>\$ 209,766,637</u>
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	<u>\$ 0</u>	<u>\$ 0</u>
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 5,688,523	\$ 7,200,134
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	0	0
Plus (Minus) Non-Operating Changes	(8,886,464)	(94,443)
Net Position, Ending Balance	<u>\$ (3,197,941)</u>	<u>\$ 7,105,691</u>

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 0	\$ 2,817,117	\$ 0	\$ 0	\$ 2,817,117
0	4,772,769	0	0	4,772,769
0	906,061	119,852	0	1,025,913
0	33,513,505	0	(33,513,505)	0
0	662,440	0	0	662,440
0	42,671,892	119,852	(33,513,505)	9,278,239
27,346,608	217,834,756	13,703,131	0	1,251,428,239
22,862	2,017,010	4,406	0	4,055,919
1,435,028	7,222,689	600,690	0	57,557,337
<u>\$ 28,804,498</u>	<u>\$ 269,746,347</u>	<u>\$ 14,428,079</u>	<u>\$ (33,513,505)</u>	<u>\$ 1,322,319,734</u>
\$ 16,433,826	\$ 82,769,626	\$ 6,887,933	\$ 0	\$ 697,824,676
6,953,187	36,644,982	3,023,797	0	293,609,713
13,517	349,251	3,367	0	33,964,506
866,088	24,377,525	528,873	0	53,346,715
169,261	18,276,550	575,710	0	20,924,290
48,807	1,429,224	409	0	26,465,487
853,496	8,963,293	110,661	0	27,302,317
729,852	3,751,930	413,070	0	15,368,008
1,774,582	1,564,146	47,658	0	36,490,909
370,663	49,223,432	2,520,972	0	67,369,517
144,230	53,161	2,077	0	28,508,206
377,527	619,157	192,800	0	12,118,166
0	39,748,679	0	(33,513,505)	6,235,174
55,557	142,165	0	0	511,993
13,905	40,831	900	0	367,810
0	230,927	0	0	230,927
<u>\$ 28,804,498</u>	<u>268,184,879</u>	<u>\$ 14,308,227</u>	<u>\$ (33,513,505)</u>	<u>\$ 1,320,638,414</u>
<u>\$ 0</u>	<u>\$ 1,561,468</u>	<u>\$ 119,852</u>	<u>\$ 0</u>	<u>\$ 1,681,320</u>
\$ 2,341,627	\$ 192,044,944	\$ 2,254,292	\$ 0	\$ 209,529,520
0	1,561,468	119,852	0	1,681,320
677,850	(45,971,854)	(268,439)	0	(54,543,350)
<u>\$ 3,019,477</u>	<u>\$ 147,634,558</u>	<u>\$ 2,105,705</u>	<u>\$ 0</u>	<u>\$ 156,667,490</u>

U.S. House of Representatives
Consolidating Statement of Cash Flows
for the Year Ended September 30, 2006

	Members	Committees
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and		
Financing Sources over Expenses	\$ 0	\$ 0
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(590,285,666)	(152,716,334)
(Increase)/Decrease in Accounts and Interoffice Receivable	525,067	201,967
(Increase)/Decrease in Advances and Prepayments	1,535,028	298,314
(Increase)/Decrease in Inventory	0	0
Increase/(Decrease) in Accounts and Interoffice Payable	597,815	778,770
Increase/(Decrease) in Other Accrued Liabilities	660,056	216,342
(Gain)/Loss on Disposal of Assets	22,942	291,329
Depreciation and Amortization	280,356	1,622,413
Net Cash Provided/(Used) by Operating Activities	(586,664,402)	(149,307,199)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(76,843)	(599,960)
Net Cash Provided/(Used) by Investing Activities	(76,843)	(599,960)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	562,119,000	147,165,930
Funds Returned to the U.S. Treasury	(1,003,398)	(5,558)
Appropriated Funds Allocated	20,156,232	4,270,617
Principal Payment on Capital Lease Liabilities	0	0
Net Cash Provided/(Used) by Financing Activities	581,271,834	151,430,989
Net Cash Provided/(Used) by Operating, Investing, and Financing Activities	(5,469,411)	1,523,830
Fund Balance with U.S. Treasury and Cash, Beginning	24,369,803	5,200,785
Fund Balance with U.S. Treasury and Cash, Ending	\$ 18,900,392	\$ 6,724,615

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 0	\$ 1,561,468	\$ 119,852	\$ 0	\$ 1,681,320
(35,938,639)	(357,908,745)	(12,233,458)	0	(1,149,082,842)
18,920	(764,477)	10,804	403,628	395,909
51,854	(531,792)	(4,792)	0	1,348,612
0	(558,124)	0	0	(558,124)
(45,151)	4,757,489	644,948	(403,628)	6,330,243
(18,422)	1,526,280	(15,231)	0	2,369,025
55,557	124,665	0	0	494,493
<u>169,261</u>	<u>18,276,550</u>	<u>575,710</u>	<u>0</u>	<u>20,924,290</u>
<u>(35,706,620)</u>	<u>(333,516,686)</u>	<u>(10,902,167)</u>	<u>0</u>	<u>(1,116,097,074)</u>
<u>(73,711)</u>	<u>(13,456,397)</u>	<u>(368,525)</u>	<u>0</u>	<u>(14,575,436)</u>
<u>(73,711)</u>	<u>(13,456,397)</u>	<u>(368,525)</u>	<u>0</u>	<u>(14,575,436)</u>
19,344,000	361,269,000	11,227,590	0	1,101,125,520
(722,092)	(5,891,372)	(66,925)	0	(7,689,345)
17,766,868	(43,012,731)	819,014	0	0
<u>0</u>	<u>(70,495)</u>	<u>0</u>	<u>0</u>	<u>(70,495)</u>
<u>36,388,776</u>	<u>312,294,402</u>	<u>11,979,679</u>	<u>0</u>	<u>1,093,365,680</u>
608,445	(34,678,681)	708,987	0	(37,306,830)
<u>2,765,478</u>	<u>178,306,281</u>	<u>1,371,605</u>	<u>0</u>	<u>212,013,952</u>
<u>\$ 3,373,923</u>	<u>\$ 143,627,600</u>	<u>\$ 2,080,592</u>	<u>\$ 0</u>	<u>\$ 174,707,122</u>

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**Independent Auditor's
Report on Compliance with
Laws and Regulations**

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the financial statements for the U.S. House of Representatives (House) as of September 30, 2006 and 2005 for the fiscal years ended and have issued our reports thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance with laws, rules, and regulations is the responsibility of the Members and administrative management of the House. As part of obtaining reasonable assurance about whether the House's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and House rules and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. Results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

House compliance with laws, rules, and regulations for the House is significantly different than for Executive Branch departments and agencies. First, many laws that apply to the Executive Branch, such as the Federal Managers' Financial Integrity Act of 1982, Government Management Reform Act of 1994, and Chief Financial Officers Act of 1990, do not apply to the House. Second, Executive Branch departments and agencies are subject to regulations that implement their authorizing statutes and to regulations imposed by other agencies, such as the Office of Management and Budget and the Office of Personnel Management. The House is subject to specific laws and its own rules and to regulations contained in its *Members' Congressional Handbook and Committees' Congressional Handbook*.

The sole, official purpose of this report is for informational use by Members of the U.S. House of Representatives, Office of the Chief Administrative Officer, and Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Matthew H. Johnson".

Matthew H. Johnson, CPA
Partner

April 30, 2007
Alexandria, Virginia

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Independent Auditor's Report on Internal Control

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has examined management's assertion included in the accompanying House of Representatives (House) Management Report on Internal Control. In that report, management asserted that the U.S. House of Representatives maintained effective internal control over financial reporting as of September 30, 2006, based on the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, obtained an understanding of internal control over financial reporting; tested and evaluated design and operating effectiveness of internal control; and performed such other procedures as considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assertion that the U.S. House of Representatives maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based upon *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

We did note certain matters involving internal control and its operations that we consider reportable conditions under standards issued by AICPA. Reportable conditions are matters coming to our attention related to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the House's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. These conditions are:

1. Weaknesses in the financial information system reduced the integrity of financial data and reporting.
2. Procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in year-end financial statements were inadequate.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in an amount that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider neither of these reportable conditions to be a material weakness. Additional details on the reportable conditions shown above are attached to this report.

The sole, official purpose of this report is for informational use by Members of the U.S. House of Representatives, Office of the Chief Administrative Officer, and Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA, CISA, CGFM
Partner

April 30, 2007
Alexandria, Virginia

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Management Comments

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Management Report on Internal Control

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The U.S. House of Representatives Management Report on Internal Control

In connection with your examination of our assertion that the U.S. House of Representatives (House) maintained effective internal control over financial reporting as of September 30, 2006, for the purpose of expressing an opinion as to whether the assertion is fairly stated, in all material respects in accordance with standards prescribed by the Government Accountability Office in *Standards for Internal Control in the Federal Government*, dated November 1999, we confirm to the best of our knowledge and belief, the following representations made to you during your examination:

- We are responsible for establishing and maintaining effective internal control over financial reporting.
- We have performed an evaluation of the effectiveness of the House's internal control over financial reporting in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, the objectives of which include:
 - Effectiveness and efficiency of operations,
 - Reliability of financial reporting, and
 - Compliance with applicable laws and regulations.
- Based on our evaluation, we assert that the House maintained effective internal control over financial reporting as of September 30, 2006, based on the above-specified control criteria.
- We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with our assertions in the financial statements.
- We have identified all deficiencies in internal control we believe to be material weaknesses.
- We have not encountered any instances of fraud by either:
 - Management or employees who have significant roles in internal control, or
 - Other employees that could have a material effect on the financial statements.
- Subsequent to the date of our management report, there have been no significant changes to internal control and no other factors have arisen that might significantly affect internal control, including any corrective action taken by the House with regard to significant deficiencies and material weaknesses.

Kathy J. Perdue 
Assistant Chief Administrative Officer

Barbara Burkhalter 
Senior Advisor
Office of Chief Administrative Officer

Daniel P. Beard 
Chief Administrative Officer

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**CAO Response to the 2006 Financial
Statement Audit Report**

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