



UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

**Audit of the Financial Statements
For the Fiscal Year Ended September 30, 2012
Report No. 13-HSW-01
May 1, 2013**

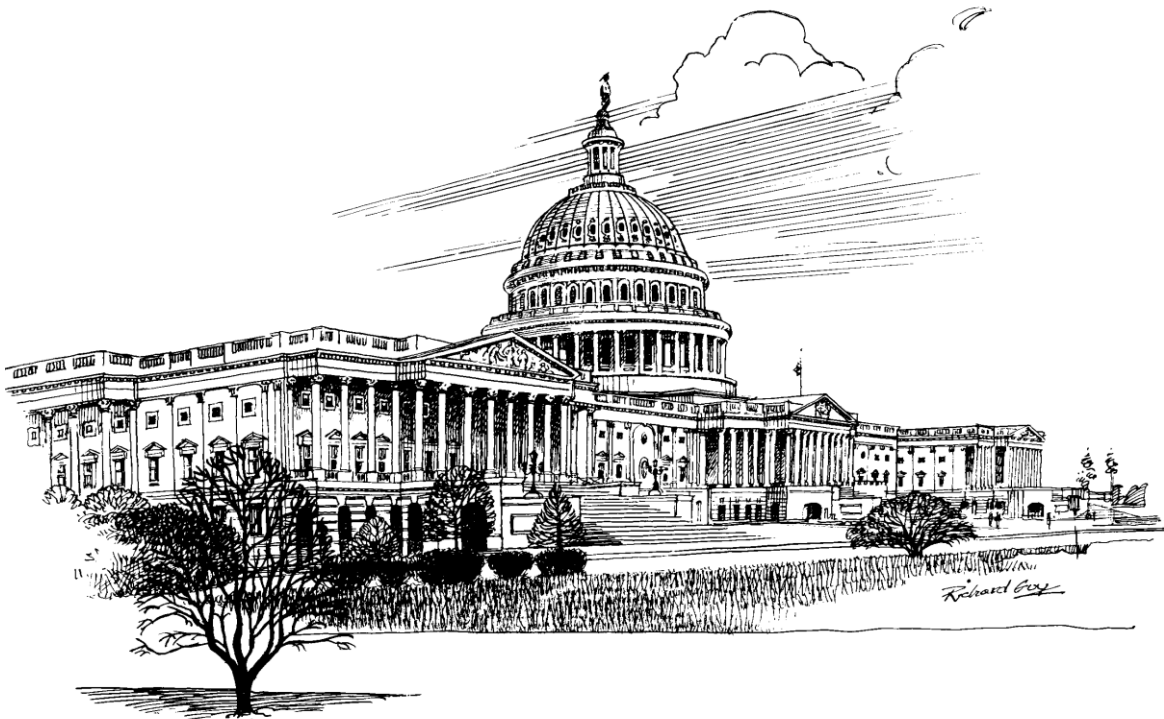




Table of Contents

Office of Inspector General Audit Report Summary	5
Management’s Discussion & Analysis	9
Independent Auditors’ Report	19
Chief Administrative Officer’s Audit Report Response	41
Fiscal Year 2012 Financial Statements	45
Consolidated Balance Sheets.....	48
Consolidated Statements of Net Cost.....	49
Consolidated Statements of Changes in Net Position.....	50
Combined Statements of Budgetary Resources	51
Notes to the Financial Statements	53
Required Supplementary Information.....	75
Other Accompanying Information.....	79

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**Office of Inspector General
Audit Report Summary**



Theresa M. Grafenstine
Inspector General

386 Ford House Office Building
Washington, DC 20515-9990

Phone: 202-226-1230
Facsimile: 202-225-4240



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

Debbie B. Hunter
Deputy Inspector General
Audit and Investigative Services

Michael T. Ptasienski
Deputy Inspector General
Advisory and Administrative Services

ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2012

SUMMARY

This report presents the audited Annual Financial Statements of the U.S. House of Representatives (House) for the fiscal years ended September 30, 2012 and 2011. We contracted with the independent certified public accounting firm of Cotton and Company LLP to perform an audit of the House's financial statements, and to report on internal control over financial reporting and on any reportable noncompliance with tested laws and regulations. The contract required that the audit be performed 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 the Office of Management and Budget Bulletin 07-04, as amended, *Audit Requirements for Federal Financial Statements*.

For the fifteenth consecutive year, the independent auditors expressed an unqualified opinion on the House's financial statements, a noteworthy accomplishment for the House. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles.

The House continues to make significant progress in implementing a comprehensive internal controls program. However, the independent auditors reported two significant deficiencies in internal control over financial reporting. The two significant deficiencies relate to controls over financial reporting processes and information technology. Management concurred with the auditor's report and continues to implement corrective actions related to the outstanding issues.

The auditors identified no instances of non-compliance with applicable laws and regulations.

Cotton and Company LLP is responsible for the attached auditor's report dated February 15, 2013 and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the House's financial statements, the effectiveness of internal control over financial reporting, or conclusions on compliance with laws and regulations.

We would like to thank House management and staff for their assistance and cooperation during the course of this audit.

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Management's Discussion & Analysis



Management's Discussion and Analysis Fiscal Year 2012

Introduction

Management's Discussion and Analysis (MDA) provides a high level overview of the origin and mission of the U.S. House of Representatives. Fiscal Year 2012 (October 1, 2011 – September 30, 2012) coincided with the 112th session of the U.S. Congress.

Origin, History, and Mission

The U. S. House of Representatives (the House) is one of two legislative chambers that comprise the Congress of the United States (the other is the U.S. Senate). Article I, Section 1 of the Constitution, adopted by the Constitutional Convention on September 17, 1787, created and vested all legislative powers to the Congress.

Location, Size, and Organization

The House chamber is located in the U.S. Capitol in Washington, DC. Other House administrative buildings in Washington, DC include the Cannon, Longworth, Rayburn and Ford House Office Buildings.

Law fixes the number of voting representatives in the House at no more than 435, proportionally representing the population of the 50 states. Also referred to as a congressman or congresswoman, each representative is elected to a two-year term serving the people of a specific congressional district. Among other duties, representatives introduce bills and resolutions, offer amendments and serve on committees. To be elected, a representative must be at least 25 years old, a United States citizen for at least seven years and an inhabitant of the state he or she represents.

Article 1, Section 2 of the Constitution provides for both the minimum and maximum sizes for the House of Representatives. Currently, there are five delegates representing the District of Columbia, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. A resident commissioner represents Puerto Rico. The delegates and resident commissioner possess the same powers as other members of the House, except that they may not vote when the House is meeting as the House of Representatives.

The Rules of the House, adopted at the beginning of each new Congress, allow for the creation of standing, select and joint committees. The 112th Congress has 20 standing 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 Ethics
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science, Space, and Technology
- Committee on Small Business
- Committee on Transportation and Infrastructure

There is a Permanent Select Committee on Intelligence, and five joint committees: The Joint Economic Committee, The Joint Committee on Taxation, the Joint Committee on the Library, the Joint Committee on Printing and the Joint Select Committee on Deficit Reduction.

House Leadership

Article I, Section 2 of the Constitution states, "The House of Representatives shall chuse (sic) their Speaker and other officers." In addition to the Speaker, each political party in the House has a leadership hierarchy, typically including a Majority Leader, Minority Leader, Majority Whip, and Minority Whip.

House Officers and Organizations

Rule II of the Rules of the House for the 112th Congress provided for the election of four officers to support House operations: a Clerk, a Sergeant-at-Arms, a Chief Administrative Officer and a Chaplain. The Rules of the House also established the Offices of Inspector General, Historian and General Counsel.

Under House Rule II, the Chief Administrative Officer has "operational and financial responsibility for functions as assigned by the Committee on House Administration and shall be subject to the oversight of the Committee on House Administration." According to Committee on House Administration records, the Chief Administrative Office has been designated as the disbursing officer for the House of Representatives since July 1, 1995. Additionally, House Rule II requires the Chief Administrative Officer to "fully cooperate with the appropriate offices and persons in the performance of reviews and audits of financial records and administrative operations." Accordingly, an audit of the financial statements of the House, as prepared by the Chief Administrative Officer, is performed annually.

FINANCIAL STATEMENT HIGHLIGHTS

Basis of Accounting and Presentation

The consolidated financial statements for fiscal years (FYs) 2011 and 2012 present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized 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 budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

Budgetary Resources

The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year. The House reported total budgetary resources for FY 2012 of \$1.5 billion, down 3 percent from FY 2011. The House reported \$88 million of total unpaid obligated balances as of September 30, 2012.

Dollars in Millions	2012	2011	% Change
Total Budgetary Resources	\$ 1,479	\$ 1,526	-3%
Obligations Incurred	\$ 1,351	\$ 1,390	-3%
Net Outlays	\$ 1,364	\$ 1,371	-1%

Obligations Incurred and Net Outlays

Obligations Incurred decreased by \$39 million in FY 2012. Net Outlays decreased by \$7 million in FY 2012.

Balance Sheet**Condensed Balance Sheet Data**

Dollars in Millions	2012	2011	% Change
Fund Balance with Treasury	\$ 215	\$ 265	-19%
Property and Equipment, Net	41	51	-20%
Other Assets	6	9	-33%
Total Assets	\$ 262	\$ 325	-19%
Accounts Payable	34	32	6%
Actuarial Federal Employees' Compensation Act Liabilities	26	21	24%
Other Liabilities	19	21	-10%
Total Liabilities	\$ 79	\$ 74	7%
Unexpended Appropriations	148	202	-27%
Cumulative Results of Operations	35	49	-29%
Total Net Position	\$ 183	\$ 251	-27%
Total Liabilities and Net Position	\$ 262	\$ 325	-19%

Total Assets – The House reported total assets of \$262 million as of September 30, 2012, a 19 percent decrease from prior year total assets of \$325 million. The Fund Balance with Treasury (FBwT) of \$215 million represents the primary asset on the Balance Sheet of the House (82 percent of total assets). FBwT decreased due to a reduction in the House's appropriation coupled with reduced spending.

Property and Equipment is the second largest asset, with a net balance of \$41 million. The major items in this category include computer software and hardware, equipment and work in process. The decrease of approximately \$10 million can be attributed to the depreciation and disposal of equipment.

Other Assets include Cash, Accounts Receivable, Inventory and Operating Materials and Supplies, and Advances and Prepayments. The 33% decrease in Other Assets is primarily due to a decrease in Prepayments.

Total Liabilities – The House reported total liabilities of \$79 million as of September 30, 2012, a 7 percent increase from the prior year total of \$74 million. The primary categories include Accounts Payable of \$34 million (43 percent of total liabilities) and Actuarial Federal Employees' Compensation Act (FECA) Liabilities of \$26 million (33 percent of total liabilities). Actuarial FECA Liabilities significantly changed due to an increase in Workers' Compensation expenses.

Other Liabilities include categories such as Accrued Payroll and Benefits, Accrued Annual Leave, Capital Lease Liabilities, Employer Contributions and Payroll Taxes Payable, and Other Post Employment Benefits Due and Payable.

Total Net Position – The Net Position as of September 30, 2012 was \$183 million, a decrease of \$68 million (27 percent) from the prior fiscal year. The balance was primarily comprised of Unexpended Appropriations of \$148 million. The decrease in net position is due to a decrease in both Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations decreased as a result of a reduction in the House's appropriation. Cumulative Results of Operations decreased as a result of the reduction in the book value of fixed assets and disposal of equipment.

Statement of Net Cost

Net Cost of Operations – The Net Cost of Operations for FY 2012 was \$1.6 billion, a slight 1 percent decrease from FY 2011, primarily comprised of Legislative Activities. The difference between Total Financing Sources and Net Cost of Operations is the Net Change of Cumulative Results of Operations.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity.

While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and in the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Daniel J. Strodel
Chief Administrative Officer

**Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860**

MANAGEMENT ASSURANCES



**CAO FY 2012 Statement of Assurance
On Internal Control over Financial Reporting**

Under Rule II of the Rules of the U.S. House of Representatives (the House) for the 112th Congress, the Chief Administrative Officer (CAO) has “operational and financial responsibility for functions as assigned by the Committee on House Administration.” The Rule further requires the CAO to “fully cooperate with the appropriate offices and persons in performance of reviews and audits of financial records...”

The CAO management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The internal control program conforms with the intent of criteria established by 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers’ Financial Integrity Act of 1982 or FMFIA), and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. The CAO conducted its assessment of the CAO’s internal control over financial reporting in accordance with the requirements of Appendix A of Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Internal Control for FY 2012. Based on the results of this assessment, the CAO can provide reasonable assurance that its internal control over financial reporting as of June 30, 2012 was operating effectively and no material weaknesses were noted in the design or operation of the internal controls over financial reporting.

A handwritten signature in blue ink, appearing to read "D. Strodel".

**Daniel J. Strodel
Chief Administrative Officer**

Internal Control Assessment OMB Circular A-123 Appendix A Review

The Internal Control Assessment is a review of the design and operating effectiveness of key internal control activities for the CAO's business processes, for safeguarding of assets, and for compliance with applicable laws and regulations. The Program follows a risk-based approach in determining the key controls to be assessed during the current year in accordance with Appendix A of OMB Circular A-123, Management's Responsibility for Internal Control over Financial Reporting.

A Senior Assessment Team (SAT) exists to provide senior management oversight for assessment of internal controls over financial reporting as they relate to budgetary and financial policies, standard operating procedures and business systems. The SAT conducts monthly meetings, as needed, to report on the findings and status to date, and discuss remediation efforts. The Internal Controls Program supports the SAT in performing the day-to-day functions of the program.

The SAT assessed and evaluated the CAO's compliance with Appendix A of OMB Circular A-123 requirements as of June 30, 2012, and determined that, of the deficiencies identified, none were determined to be a material weakness. The nature of each deficiency, the existence of compensating controls, the dollar value of transactions potentially affected by the deficiency, the level of risk, and the likelihood that an error may not be prevented or detected were included in the assessment of the deficiencies.

Additional deficiencies were detected subsequent to June 30 during the 2012 fiscal year-end financial reporting process. These deficiencies were attributed to processing issues within the financial application and were determined to be a continuation of processing issues detected in prior years. The deficiencies were classified as significant deficiencies.

As a result, the House is able to provide reasonable assurance that its internal control over financial reporting was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Office of the Inspector General (OIG) Assessment for Previous Fiscal Year

Under House Rule II of the 112th Congress, the Office of the Inspector General (OIG) provides "audit, investigative, and advisory services to the House and joint entities in a manner consistent with government-wide standards." For FY 2011, the previous fiscal year, the OIG engaged Cotton & Company to perform the external audit of the House's financial statements. For FY 2011, the House received an unqualified audit opinion. The audit report noted two significant deficiencies. The two significant deficiencies related to ineffective controls over the financial reporting process and ineffective controls over information technology.

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Independent Auditors' Report

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Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP conducted the fiscal years (FYs) 2012 and 2011 financial statement audits of the U.S. House of Representatives (House) in accordance with auditing standards generally accepted in the United States of America (U.S.), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S., and as applicable, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In our audits of the House's FYs 2012 and 2011 financial statements, we found:

- The financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, although internal control could be improved.
- No reportable noncompliance in FY 2012 with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusions on Management's Discussion and Analysis and required supplementary information; (3) our audit objectives, scope, and methodology; and (4) the House's comments on a draft of this report.

OPINION ON THE FINANCIAL STATEMENTS

The financial statements, including accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the consolidated financial position of the House, as of September 30, 2012 and 2011, and its consolidated net costs, consolidated changes in net position, and combined budgetary resources for the fiscal years then ended.

CONSIDERATION OF INTERNAL CONTROL

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 an entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

In planning and performing our FY 2012 audit, we considered the House's internal control over financial reporting and over compliance with laws and regulations. We did this as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House's internal control. Accordingly, we do not express an opinion on internal control over financial reporting and over compliance with laws and regulations, or on management's assertion on internal control included in Management's Discussion and Analysis.

Our consideration of internal control was for the limited purpose described in the Objectives, Scope, and Methodology section of this report. It was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in the House's internal control to be significant deficiencies:

- Ineffective Controls Over the Financial Reporting Process
- Ineffective Controls Over Information Technology

These significant deficiencies are discussed in more detail in Appendix A to this report. We also identified other deficiencies in the House's system of internal control that we do not consider to be material weaknesses or significant deficiencies. We have communicated these matters to House management.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of the House's compliance with selected provisions of laws and regulations for FY 2012 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or applicable OMB audit guidance. The objective of our audit was not, however, to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. generally accepted accounting principles require that required supplementary information, including Management's Discussion and Analysis, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic 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 U.S. which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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

The Schedule of Spending is presented for the purpose of additional analysis and is not a required part of the basic financial statements or required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OBJECTIVES, SCOPE, AND METHODOLOGY

House management is responsible for:

1. Preparing the financial statements in conformity with U.S. generally accepted accounting principles.
2. Establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness.
3. Complying with applicable laws and regulations.

Cotton & Company is responsible for planning and performing our audit to obtain reasonable assurance and express an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) applying certain limited procedures to the required supplementary information and other information included with the financial statements.

In order to fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Assessed accounting principles used and significant estimates made by management.
- Evaluated overall presentation of the financial statements.
- Obtained an understanding of the House and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority).
- Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control.
- Tested compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB as applicable.

We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the House's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and applicable OMB audit guidance. We believe our audit provides a reasonable basis for our opinion and other conclusions.

HOUSE COMMENTS AND OUR EVALUATION

In commenting on the draft of this report, House management concurred with the facts and conclusions in our report. Management's comments are in Appendix B. We did not audit management's response, and accordingly, we express no opinion on it.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA
Partner

February 15, 2013
Alexandria, Virginia

APPENDIX A
SIGNIFICANT DEFICIENCIES NOTED DURING THE
FY 2012 FINANCIAL STATEMENT AUDIT

APPENDIX A
SIGNIFICANT DEFICIENCIES NOTED DURING THE
FY 2012 FINANCIAL STATEMENT AUDIT

During our audit of the House's FY 2012 financial statements, we identified two significant deficiencies in internal control over financial reporting, described in this appendix. We do not consider these to be material weaknesses.

Weakness 1: Ineffective Controls Over the Financial Reporting Process
Summary Status: Significant Deficiency
Prior-Year Condition
Open

Since FY 2009, we have reported that the House does not have effective controls over financial reporting. During FY 2012, the House made progress on addressing previously identified errors; however, controls around budgetary accounting and reporting and those around month-end closing processes need improvement. We identified the following three areas within financial reporting where controls are not effective and improvements are needed, which collectively represent a significant deficiency.

1. Errors were found in the budgetary accounting and reporting process.
2. The House did not regularly reconcile subsidiary ledgers (SL) to the general ledger (GL).
3. The House has inadequate controls over PeopleSoft accounting period management.

We discuss each of these areas below and provide our recommendations for improvement.

1. Errors were found in the budgetary accounting and reporting process.

During the FY 2012 audit, we found errors in the processes and controls the House has in place to ensure that proper budgetary GL accounts are used and that budgetary amounts are reported accurately in the financial reporting process. Specifically, we found the following:

Undelivered Orders

PeopleSoft, the House's core financial management system, is not properly processing purchase order (PO) activity. At September 30, 2012, there were 125 POs containing errors totaling an absolute amount of \$3.0 million. While the House was able to detect these errors and make the necessary corrections, its existing controls did not identify all errors timely, and corrections required an extensive and in-depth review of all undelivered order activity because the root cause of the errors had not been identified. As a result, the delivery of the draft financial statements was delayed six days.

U.S. Government Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government: Accurate and Timely Recording of Transactions and Events* states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

We recommend that the Office of the Chief Administrative Officer (CAO):

- Identify the root cause of known undelivered order processing errors and the necessary modifications to PeopleSoft.
- Develop and implement a control process to detect and correct erroneous PO activity in the SL and GL as part of the month-end closing process.

Unobligated Balances

Budgetary accounting tracks whether unobligated balances are available for new obligations using the following GL accounts:

- Unobligated balances available for new obligations are tracked in GL account 4620, *Unobligated Funds Exempt From Apportionment*.
- Unobligated balances that are no longer available for new obligations but are available for adjustments to existing obligations are tracked in GL account 4650, *Expired Funds*.

The House did not properly record unobligated amounts when reversing prior-year activity and adjusting undelivered order and payroll activity. In addition, the correct unobligated balance GL account was not used to record transfers of prior-year balances because posting logic for this accounting event was not configured in PeopleSoft. As a result, the following lines in the Statement of Budgetary Resources were misstated by \$5.2 million:

- Unobligated Balances: Available – Exempt from Apportionment (understated)
- Unobligated Balances: Not Available (overstated)

Upon notification and discussion with the auditors, the House made the necessary corrections for the above-noted errors on the final FY 2012 financial statements.

GAO's *Standards for Internal Control in the Federal Government* states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

We recommend that the CAO:

- Implement a quarterly review of budgetary balances to ensure that unobligated balances are properly classified.
- Ensure that PeopleSoft has appropriate posting logic for all House accounting events.

2. The House did not regularly reconcile subsidiary ledgers to the general ledger.

During the year, the House performed SL to GL reconciliations; however, the reconciliations were not performed on a monthly basis until July 2012. In addition, the House did not always complete the reconciliations timely, and the reconciliation process has not been documented in the form of a standard operating procedure. We observed that the House:

- Did not complete the SL to GL reconciliations for October 2011 through March 2012 until May 2012.

- Did not start the reconciliations for April through June 2012 until July 25, 2012.
- Did not start the September 2012 reconciliation until October 26, 2012.

Though these reconciliations did not identify material discrepancies, failure to perform the reconciliation increases the risk that errors may not be detected in a timely manner, resulting in a GL that may not be complete or accurate.

GAO's Standards for Internal Control in the Federal Government states, "Internal control and all transactions and other significant events need to be clearly documented ... The documentation should appear in management directives, administrative policies, or operating manuals...Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

We recommend that the CAO:

- Ensure that the PeopleSoft SL to GL reconciliation is completed on a monthly basis, no more than 20 days after the end of the previous month.
- Document the SL to GL reconciliation procedure, which should include the frequency and timeliness of the reconciliation as well as roles and responsibilities.
- Incorporate the reconciliation into the month-end closing procedures.

3. The House has inadequate controls over PeopleSoft accounting period management.

PeopleSoft allows multiple accounting periods to be open simultaneously. This flexibility enables the House to process current-period transactions and close the prior accounting period concurrently. In addition, PeopleSoft subsystems may be closed prior to the GL, and periods may be reopened.

The House does not have formal policies and procedures regarding the management of accounting periods in PeopleSoft. In addition, an excessive number of CAO employees have system user permission to open and close accounting periods in PeopleSoft. As a result of the House's inadequate controls over accounting period management, the House omitted an entry from the interim financial statements. While this error was not material to the financial statements, poor accounting management controls increase the risk of errors in the financial statements.

GAO's Standards for Internal Control in the Federal Government states, "... In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations. ... Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

We recommend that the CAO:

- Develop and implement policies and procedures over the monthly opening and closing of PeopleSoft accounting periods.

- Limit the number of individuals with rights to open and close accounting periods in PeopleSoft.
- Incorporate a month-end close checklist into the monthly closing procedures.

Weakness 2: Ineffective Controls Over Information Technology
Summary Status: Significant Deficiency
Prior-Year Condition
Open

During FY 2012, the House appointed a new Chief Information Officer (CIO) and Chief Information Security Officer (CISO) that have refocused the House's efforts in developing, documenting, and implementing an effective IT governance and information security program, including a risk management framework, for its major financial systems. The House made significant advances in FY 2012; however, there are still areas for improvement to strengthen controls surrounding the completeness, accuracy, and reliability of financial data. We noted the following ten conditions related to internal controls over information systems, which collectively represent a significant deficiency in the control environment. We discuss each of these areas below and provide our recommendations for improvement.

1. A process has not been fully implemented to ensure that all major systems within the House IT environment have undergone a risk management process as defined by the National Institute of Standards and Technology (NIST).

The House did not complete risk assessments in accordance with NIST guidance for the House network and Active Directory. *The United States House of Representatives Information Security Policy for the Information Security Compliance Program* (HISPOL 007.0) requires that all major systems, support systems, and applications undergo a certification and accreditation (C&A) process before implementation, and at least every two years thereafter.

The CAO published *House Information Security Publication* (HISPUB) 007.1, *Risk Management Framework*, which documents a high-level overview of the risk management framework methodology that the CAO will follow. The CAO has not updated HISPOL 007.0 or issued further guidance, however, including procedures guiding the implementation of NIST risk management framework methodology and the performance of risk assessments in accordance with NIST guidance. As a result, management cannot obtain adequate assurance that all information systems and the general IT environment are operating with an acceptable amount of risk.

NIST Special Publication (SP) 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that organizational officials, in collaboration with the senior information security officer, assess the information provided by the system owner or common control provider regarding the current security state of the system and recommendations for addressing any residual risks. Risk assessments are employed at the discretion of the organization to provide needed information on threats, vulnerabilities, and potential impacts, as well as the analyses for risk mitigation recommendations.

We recommend that the CAO:

- Implement and enforce a risk management framework to ensure that all systems are identified and undergo a security assessment process, to include risk assessments, in accordance with House policy and industry best practices for federal information systems. This will ensure that management's authorizing officials are provided with adequate information to make system authorization decisions.

2. System Security Plans (SSPs) for major financial systems have not been fully developed and maintained in accordance with House policy and industry best practices.

We found that SSPs were inadequate for the House network, Active Directory, and Lawson. We noted that the PeopleSoft SSP has been fully developed and maintained in accordance with House policy and industry best practices, as a result of updates made in FY 2012. While we noted that the Lawson SSP had been updated in FY 2012, no updates were made to the House network or Active Directory SSPs. The SSPs for Lawson, the House network, and Active Directory did not document all minimum security controls based on system criticality and data.

CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework as outlined by NIST SP 800-37, Revision 1, including minimum security control selection, scoping, and tailoring. As a result, there is an increased risk that potential threats and vulnerabilities will not be mitigated due to a lack of security controls commensurate with the risk of the system security categorization.

In accordance with NIST SP 800-18, Revision 1, *Guide for Developing Security Plans for Federal Information Systems*, agencies must meet the minimum security requirements of Federal Information Processing Standard (FIPS) 200, which represent a broad-based, balanced information security program that addresses the management, operational, and technical aspects of protecting the confidentiality, integrity, and availability of federal information and information systems. Agencies meet the minimum security requirements in FIPS 200 by applying security controls selected in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, and the designated impact levels of the information systems.

We recommend that the CAO:

- Document and implement policies and procedures that provide guidance regarding the implementation of a risk management framework as outlined by NIST SP 800-37, Revision 1, including system security categorization, minimum security control selection, scoping, and tailoring.

3. Security control assessments were not conducted to test the design and operating effectiveness of all required controls for the House network and financial systems.

While the House conducted a security control assessment for Lawson in FY 2012, it did not test the design and operating effectiveness of all required controls. The House did not perform security control assessments for the House network, Active Directory, or PeopleSoft in FY 2012.

CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework, including establishing minimum security controls in accordance with FIPS 200 and NIST SP 800-53, Revision 3, and performing security control assessments commensurate with the risk and criticality of the system. As a result, there is an increased risk that CAO management does not have a complete understanding of the risk to systems and to the IT environment.

NIST SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that organizations assess the security controls in accordance with the assessment procedures defined in the security assessment plan. Security control

assessments determine the extent to which the controls are implemented correctly, operating as intended, and producing the desired outcome with respect to meeting the security requirements for the information system.

We recommend that the CAO:

- Conduct and document security control assessments for the House network, Active Directory, and financial systems to test the design and operating effectiveness of all required controls.
- Include the description of the implemented control, test steps to be conducted, expected test results, and actual test results in the documentation for each control tested.
- Obtain and document evidence from testing to allow CAO management to make objective determinations about the effectiveness of security controls and the security of the information system.

4. A process has not been developed or implemented for identifying and tracking all known security weaknesses and incidents across the agency and ensuring that appropriate corrective action is taken.

While the House has developed HISPUB 007.2, *Information Systems Security Certification Process for Applications*, and HISPUB 004.1, *Computer Incident Response Team Handbook*, to generally guide the plan of action and milestones (POA&M) and computer incident response team (CIRT) processes, respectively, they are not in accordance with industry best practices, and the House has not developed detailed procedures guiding either process. A POA&M has not been fully developed or maintained for all financial systems and applications.

CAO management has not documented a process to ensure that all security weaknesses and security incidents throughout the IT environment are tracked and managed from an entity-wide perspective. Without identifying and tracking all security weaknesses, CAO management cannot ensure that appropriate and timely corrective action is taken to address all known issues and weaknesses. As a result, there is an increased risk that a significant security weakness will remain vulnerable for an extended period of time.

HISPOL 007.0 requires that vulnerabilities identified during the review process of a major or support application, device, or the House network be documented and tracked throughout the remediation process. Identified vulnerabilities are prioritized based on the risk each poses. Once a vulnerability is identified, a corrective action should be formulated and a timeframe established for its implementation.

Additionally, in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should track and document information system security incidents. Documenting information system security incidents includes, for example, maintaining records about each incident, the status of the incident, and other pertinent information necessary for forensics, evaluation of incident details, trends, and handling.

We recommend that the CAO:

- Develop, document, and implement a process to identify and track all security weaknesses and incidents identified throughout the environment and ensure that appropriate corrective action is taken.
 - The incident response process should ensure that the House maintains documentation for all identified security incidents, and that appropriate follow-up investigations are performed.
 - The POA&M process should ensure that POA&Ms or equivalent documentation are developed and maintained in accordance with industry best practices for all House systems and applications. The POA&M management process should additionally ensure that a process is in place for testing security controls identified as corrected, to ensure actions taken adequately mitigate or correct identified weaknesses.

5. Account management controls were not adequately managed and enforced throughout CAO.

The CAO made progress in FY 2012 regarding account management controls. We noted, however, that the periodic recertification of the House network was not completed in accordance with industry best practices, and access to FinMart infrastructure was not granted in accordance with the principle of least privilege. Specifically, we noted the following:

- The quarterly network access recertification is completed based on the login activity of the network account, not on the continued appropriateness of access.
- Enterprise Applications identified two individuals with unnecessary administrator access rights to the operating system supporting the FinMart production database. All operating system access was revoked for the two individuals.

The network account management issue exists because CAO management has not adequately implemented a process to periodically review CAO network accounts for continued appropriateness. This failure to appropriately complete network access recertifications increases the risk that accounts may be used by unauthorized individuals to conduct inappropriate or malicious acts.

The inappropriate FinMart operating system access issue exists because CAO management violated principles of least privilege by granting unnecessary operating system access rights to the FinMart production database server. Granting administrative operating system access to two users that did not require it increased the risk that the confidentiality, integrity, and/or availability of data residing on the FinMart database server may have been compromised, intentionally or unintentionally.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations are to manage information system accounts, including establishing, activating, modifying, disabling, and removing accounts, reviewing accounts at an organization-defined frequency, and granting access to the system based on: (i) a valid access authorization; (ii) intended system usage; and (iii) other attributes as required by the organization or associated mission/business functions.

We recommend that the CAO:

- Develop and implement an account management process to ensure that periodic user access recertifications are performed. The process should also include a review of users' access requirements and their continued appropriateness.

No recommendation is issued for FinMart user access, as CAO management resolved the issue during FY 2012.

6. Contingency planning and recovery policies and procedures have not been adequately developed and implemented to ensure a comprehensive approach that includes the House network, Active Directory, and Lawson.

In FY 2011 we noted that the House had not adequately developed contingency plans to coordinate recovery activities between the House network, Active Directory, and Lawson. Recovery Procedure Annexes (RPAs) for data network systems, Active Directory, and Lawson were still in draft at the time of our testing, and multiple components of each RPA were not fully documented. The issues noted regarding incomplete contingency plan development were due to the continued implementation of the Business Continuity/Disaster Recovery (BC/DR) framework. No corrective actions were completed in FY 2012, and CAO management indicated that corrective actions were not scheduled for full completion until FY 2013. As a result, there is an increased risk that House financial operations, data, or systems may become unavailable for an extended period of time without sufficient alternate operating procedures in place to carry out core requirements.

In accordance with NIST SP 800-34, Revision 1, *Contingency Planning Guide for Federal Information Systems*, information system contingency planning represents a broad scope of activities designed to sustain and recover critical system services following an emergency event. An information system contingency plan (ISCP) provides established procedures for the assessment and recovery of a system following a system disruption. The ISCP provides key information needed for system recovery, including roles and responsibilities, inventory information, assessment procedures, detailed recovery procedures, and instructions for testing a system.

NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, Control CP-2, *Contingency Plan*, requires the development of a contingency plan for all information systems.

We recommend that the CAO:

- Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network, Active Directory, and all critical financial systems.

7. Policies and procedures for separation of duties have not been fully developed.

Three Lawson users with administrative application privileges are also the operating system administrators for the servers onto which the application logs are written. These administrators have elevated access that would allow them to access the applications logs that are written to the underlying operating system in both a read and write capacity. This represents a segregation of duties conflict in

that the users with system administrator access have the necessary privileges to review, and potentially delete any evidence of, their own actions on the system.

Additionally, the CAO's management control program identified a deficiency concerning powerful user privileges in Lawson and separation of duties. The separation of security administration, development, deployment, and change management functions were not adequate, and the application administrators maintained super-user access. Additionally, logging and monitoring at this level of access was not adequate to detect unauthorized activities.

Finally, the House has not developed a formal separation of duties policy for the House network.

The separation of duties issue noted is attributable to the fact that policies and procedures have not been developed, documented, and implemented for Lawson and the House network to identify incompatible duties and enforce separation of duty controls at both the end-user and administrative levels. As a result, there is an increased risk that financial data may be manipulated by unauthorized individuals. Subsequently, there is an increased risk that fraudulent acts may go undetected and financial data may become inaccurate and unreliable.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should separate duties of individuals as necessary to prevent malevolent activity without collusion, document separation of duties, and implement separation of duties through assigned information system access authorizations.

We recommend that the CAO:

- Develop, document, and implement policies and procedures to ensure that separation of duties is defined and implemented at the end-user and administrative levels for Lawson and the Network.

8. Audit logging and monitoring controls have not been adequately designed and implemented for financial applications.

We noted inadequate monitoring of sensitive application transactions/table edits and inappropriate separation of duties for security personnel reviewing system/application logs for PeopleSoft. We also noted inadequate logging and monitoring of FinMart infrastructure components. Specifically, we noted the following issues:

- At an application level, failed logon attempts and security role changes are the only auditable events that are actively monitored for PeopleSoft. While management has established key fields and tables for trigger-based auditing, active monitoring and review of these logs is not performed.
- The UNIX administrators supporting PeopleSoft, all of whom have SUDO access to root on the production application, web, and database Solaris servers, are responsible for the administration of the operating system as well as the monitoring of operating system security logs. This represents a separation of duties conflict, as the administrators are potentially reviewing their own actions. While a new process was implemented for SUDO monitoring in October 2012, it was not in place during FY 2012 and was not evaluated in the period under audit.

- Logging and monitoring is not performed over the modification or deletion of content in SQL Server Agent jobs on the FinMart production SQL server. The SQL Server Agent Jobs manage the daily data transfer with PeopleSoft, as well as the system assurance job that ensures data integrity.

CAO management has not developed policies and procedures documenting all aspects of audit logging and monitoring for financial applications. As a result, there is an increased risk that suspicious activity, whether intentional or unintentional, affecting key financial data will not be detected in a timely manner, and that a single individual could engage in malicious activity that could remain undetected.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should determine, based on a risk assessment and mission/business needs, that the information system must be capable of auditing organizationally-defined auditable events. The organization should review and analyze information system audit records for indications of inappropriate or unusual activity, and report findings to designated organizational officials. Additionally, NIST SP 800-53, Revision 3 states that organizations should separate duties of individuals as necessary, to prevent malevolent activity without collusion. For example, security personnel who administer access control functions should not administer audit functions.

We recommend that the CAO:

- Develop and implement audit logging and monitoring policies and procedures for PeopleSoft and FinMart to ensure that audit logs for sensitive financial records and tables, as well as for key security activities, are actively monitored, and that all reviews and any follow-up actions taken are documented.

9. Security configuration baselines have not been adequately configured and monitored.

The House did not update security configuration baselines in FY 2012 to correct deficiencies noted in prior years, including issues with the Microsoft Windows Server 2008 and Oracle for UNIX configuration checklists. Specifically, CAO baselines deviate significantly from industry best practices, such as Center for Internet Security (CIS) configuration benchmarks. Additionally, HISPOL 007.0, which documents the process for baseline compliance reviews, has not been updated, and the process still indicates that compliance reviews are only required once every three years.

CAO management has not implemented a process to ensure that security configuration baselines are configured and monitored in accordance with industry best practices. As a result, settings deployed to House operating systems and database management systems may not provide adequate security and protection. This increases the risk that the integrity, confidentiality, and availability of House data could be compromised.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should establish configuration settings for information technology products employed within the information system that reflect the most restrictive mode consistent with operational requirements and monitor changes to the configuration settings in accordance with organizational policies and procedures.

We recommend that the CAO:

- Implement a process to ensure that security configuration baselines are appropriately configured and monitored for all platforms, in accordance with industry best practices.

10. PeopleSoft shared group account access is not actively monitored and reviewed.

The House does not adequately monitor and review shared group accounts, including privileged administrator accounts. We noted three group accounts, two with administrative access and one used by the accounting department for accounts payable processing that did not have proper oversight and accountability. While we noted that CAO management implemented a process in FY 2012 to periodically monitor the IP addresses used to access these accounts, the design of the process does not provide accountability for actions performed with the shared accounts, nor does it include a review of the actions performed using the shared accounts.

These issues are due to CAO management not having adequately established policies and procedures guiding the usage and monitoring of shared group accounts, including privileged administrator accounts, for PeopleSoft. There is an increased risk that inappropriate actions may be performed with a privileged account within the financial system and go undetected; even if inappropriate actions are detected, accountability for those actions cannot be determined.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, the information system should uniquely identify and authenticate organizational users or processes acting on behalf of organizational users. Unique identification of individuals in group accounts (e.g., shared privilege accounts) may need to be considered for detailed accountability of activity.

We recommend that the CAO:

- Uniquely identify and authenticate users to the highest degree possible by establishing and implementing policies and procedures concerning audit logging and monitoring, including privileged administrator accounts.

Status of Prior-Year Findings

In the audit report on the House's FY 2011 financial statements, we noted several issues related to internal controls over financial reporting. The table below presents a summary of our internal control findings.

Control Deficiency	2011 Status	2012 Status
Ineffective Controls Over the Financial Reporting Process	Significant Deficiency	Significant Deficiency
Ineffective Controls Over Information Technology	Significant Deficiency	Significant Deficiency

APPENDIX B
MANAGEMENT'S RESPONSE TO THE
FY 2012 FINANCIAL STATEMENT AUDIT REPORT

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Chief Administrative Officer's Audit Report Response




Daniel J. Strodel
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860

MEMORANDUM

To: The Honorable Theresa M. Grafenstine
Inspector General

From: Daniel J. Strodel 
Chief Administrative Officer

Subject: Chief Administrative Officer Response to the *Fiscal Year 2012 Financial Statement Audit Report*

Date: February 21, 2013

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2012. We are pleased to have received another “clean” audit as well as continued improvements in the area of internal controls. While it was a positive step to have eliminated the material weaknesses identified in the FY08 through FY10 audits in FY11, we now have two consecutive audits with no material weaknesses and improved internal controls. This is further confirmation that we have implemented the appropriate changes needed to establish and maintain programs and controls consistent with FEDGAAP standards.

We have reviewed and concur with the two significant deficiencies and the corresponding recommendations contained in the FY12 Financial Statement Audit Report. Brief summaries of our planned actions related to these issues are outlined below.

Weakness 1 – Ineffective Controls over the Financial Reporting Process: The CAO continues to improve the financial reporting process and remediate prior year issues. The CAO will continue to implement corrective actions related to the outstanding issues.

Weakness 2 – Ineffective Controls over Information Technology: The House continues to implement an information technology (IT) controls framework based on industry best practices. The actions taken during FY 2012 resulted in the reduction of outstanding issues from thirteen to ten issues. Additional actions are required to implement and remediate the noted items, and specific action plans will be developed to address the noted items.

We recognize that the achievement of an unqualified financial statement opinion was accomplished through the joint efforts of your staff, contract auditors, CAO and other House staff. I would like to express my appreciation for the cooperation and professionalism displayed by your staff and contract auditors during the course of the engagement.

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Fiscal Year 2012 Financial Statements

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Financial Statements Included in This Report

The U.S. House of Representatives (House) has prepared financial statements for fiscal year (FY) 2012 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*. The responsibility for the integrity of the financial information included in these statements rests with management of the House. The audit of the House's financial statements was performed by Cotton & Company LLP. The auditors' report accompanies the financial statements.

The House's financial statements for FY 2012 consisted of the following:

- The **Balance Sheet**, which presents as of September 30, 2012 and 2011 those resources owned or managed by the House that are available to provide future economic benefits (assets); amounts owed by the House that will require payments from those resources or future resources (liabilities); and residual amounts retained by the House comprising the difference (net position).
- The **Statement of Net Cost**, which presents the net cost of the House's operations for the years ended September 30, 2012 and 2011. The House's net cost of operations includes the gross costs incurred by the House less any exchange revenue earned from House activities.
- The **Statement of Changes in Net Position**, which presents the change in the House's net position resulting from the net cost of the House's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2012 and 2011.
- The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2012 and FY 2011, the status of these resources at September 30, 2012 and 2011, the change in obligated balances during FY 2012 and FY 2011, and net outlays of budgetary resources for the years ended September 30, 2012 and 2011.

U.S. HOUSE OF REPRESENTATIVES
Consolidated Balance Sheets
As of September 30, 2012 and 2011

	2012	2011
ASSETS		
Intergovernmental:		
Fund Balance with U.S. Treasury (Note 2)	\$ 215,313,390	\$ 264,591,955
Accounts Receivable, Net (Note 3)	66,867	536,949
Advances and Prepayments (Note 7)	10,756	11,359
Total Intragovernmental	215,391,013	265,140,263
Cash and Other Monetary Assets (Note 2)	2,948	520
Accounts Receivable, Net (Note 3)	447,332	472,324
Inventory and Operating Materials and Supplies (Note 4)	1,366,626	1,370,614
Property and Equipment, Net (Note 5)	40,462,006	51,177,082
Advances and Prepayments (Note 7)	4,170,614	6,537,610
Total Assets	\$ 261,840,539	\$ 324,698,413
Stewardship Property and Equipment (Note 6)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	\$ 5,580,540	\$ 4,879,398
Advances from Others	113,286	55,167
Capital Lease Liabilities (Note 9)	352,875	549,371
Other Liabilities	3,989,542	5,033,931
Total Intragovernmental	10,036,243	10,517,867
Accounts Payable	28,888,518	27,391,752
Actuarial Federal Employees' Compensation Act Liabilities	25,969,234	21,290,084
Accrued Payroll and Benefits	6,664,806	7,150,990
Accrued Annual Leave	7,391,503	7,823,711
Other Liabilities	159,493	174,548
Total Liabilities (Note 8)	\$ 79,109,797	\$ 74,348,952
NET POSITION		
Unexpended Appropriations	\$ 148,024,167	\$ 201,799,706
Cumulative Results of Operations	34,706,575	48,549,755
Total Net Position	\$ 182,730,742	\$ 250,349,461
Total Liabilities and Net Position	\$ 261,840,539	\$ 324,698,413

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statements of Net Cost
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NET COST OF OPERATIONS (Note 11)		
Net Costs by Program Area		
Legislative Activities		
Gross Costs	\$ 1,617,106,848	\$ 1,627,233,695
Less: Earned Revenue	<u>(4,122,231)</u>	<u>(4,793,398)</u>
Net Program Costs	<u>1,612,984,617</u>	<u>1,622,440,297</u>
 Revolving Funds		
Gross Costs	1,538,943	1,062,654
Less: Earned Revenue	<u>(5,430,138)</u>	<u>(6,226,386)</u>
Net Program Costs	<u>(3,891,195)</u>	<u>(5,163,732)</u>
 Net Cost of Operations	 <u>\$ 1,609,093,422</u>	 <u>\$ 1,617,276,565</u>

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2012 and 2011

	2012	2011
Cumulative Results of Operations		
Beginning Balance	\$ 48,549,755	\$ 55,493,161
Budgetary Financing Sources		
Appropriations Used	1,370,491,022	1,373,260,349
Nonexchange Revenue	26,600	-
Donations	43,051	-
Other Adjustments	(4,382,615)	1,326,770
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 15)	229,446,950	235,680,888
Other Adjustments	(374,766)	65,152
Total Financing Sources	1,595,250,242	1,610,333,159
Net Cost of Operations	(1,609,093,422)	(1,617,276,565)
Net Change	(13,843,180)	(6,943,406)
Total Cumulative Results of Operations	\$ 34,706,575	\$ 48,549,755
Unexpended Appropriations		
Beginning Balance	\$ 201,799,706	\$ 179,390,239
Budgetary Financing Sources		
Appropriations Received	1,346,438,000	1,430,483,150
Appropriations Transferred-In/Out	(8,975,000)	-
Other Adjustments	(20,747,517)	(34,813,334)
Appropriations Used	(1,370,491,022)	(1,373,260,349)
Total Budgetary Financing Sources	(53,775,539)	22,409,467
Total Unexpended Appropriations	\$ 148,024,167	\$ 201,799,706
Net Position	\$ 182,730,742	\$ 250,349,461

U.S. HOUSE OF REPRESENTATIVES
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2012 and 2011

	2012	2011
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	\$ 135,565,747	\$ 98,588,145
Adjustment to unobligated balance brought forward, Oct 1	-	-
Unobligated balance brought forward, Oct 1, as adjusted	135,565,747	98,588,145
Recoveries of prior year unpaid obligations	2,100,201	1,471,605
Other changes in unobligated balance	(32,211,858)	(34,084,970)
Unobligated balance from prior year budget authority, net	105,454,090	65,974,780
Appropriations (discretionary and mandatory)	1,346,438,000	1,430,483,150
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending authority from offsetting collections (discretionary and mandatory)	26,765,928	29,074,570
Total budgetary resources	\$ 1,478,658,018	\$ 1,525,532,500
Status of Budgetary Resources:		
Obligations incurred	\$ 1,350,963,400	\$ 1,389,966,753
Unobligated balance, end of year:		
Apportioned	-	-
Exempt from apportionment	121,986,647	72,061,195
Unapportioned	5,707,971	63,504,552
Total unobligated balance, end of year:	127,694,618	135,565,747
Total budgetary resources	\$ 1,478,658,018	\$ 1,525,532,500
Change in Obligated balance:		
Unpaid Obligations, brought forward, Oct 1	\$ 130,426,238	\$ 141,186,698
Uncollected customer payments from Federal sources, brought forward, Oct 1	(536,418)	-
Obligated balance, start of year (net), before adjustments	129,889,820	141,186,698
Adjustment to obligated balance, start of year	-	-
Obligated balance, start of year (net), as adjusted	129,889,820	141,186,698
Obligations incurred	1,350,963,400	1,389,966,753
Outlays (gross)	(1,390,809,061)	(1,399,255,608)
Change in uncollected customer payments from Federal sources	536,418	(536,418)
Actual transfers, unpaid obligations (net)	-	-
Actual transfers, uncollected customer payments from Federal sources (net)	-	-
Recoveries of prior year unpaid obligations	(2,100,201)	(1,471,605)
Obligated balance, end of year		
Unpaid obligations, end of year (gross)	88,480,376	130,426,238
Uncollected customer payments from Federal sources, end of year	-	(536,418)
Obligated balance, end of year (net)	\$ 88,480,376	\$ 129,889,820
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	\$ 1,373,203,928	\$ 1,459,557,720
Actual offsetting collections (discretionary and mandatory)	(27,302,346)	(28,538,152)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	536,418	(536,418)
Anticipated offsetting collections (discretionary and mandatory)	-	-
Budget authority, net (discretionary and mandatory)	\$ 1,346,438,000	\$ 1,430,483,150
Outlays, gross (discretionary and mandatory)	\$ 1,390,809,061	\$ 1,399,255,608
Actual offsetting collections (discretionary and mandatory)	(27,302,346)	(28,538,152)
Outlays, net (discretionary and mandatory)	1,363,506,715	1,370,717,456
Distributed offsetting receipts	-	-
Agency outlays, net (discretionary and mandatory)	\$ 1,363,506,715	\$ 1,370,717,456

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Notes to the Financial Statements

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. 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 elects and appoints Officers and officials to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The 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 112th Congress. The fiscal year 2012 financial statements are comprised of two programs: Legislative Activities and Revolving Funds.

Legislative Activities

Legislative Activities consist of all financial activity related to the operations of all Member Offices, both in Washington, D.C. and Congressional districts; all Committees both Standing and Special and Select; Leadership Offices; House Officers and Offices and Joint Functions that the House shares with the U.S. Senate including the Attending Physician and Joint Committee on Taxation.

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; five Delegates, one each, from the District of Columbia, Guam, Virgin Islands, American Samoa and Northern Mariana Islands; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 112th 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 112th 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 Ethics
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science, Space, and Technology
- Committee on Small Business
- 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
Clerk of the House
Office of Congressional Ethics
Office of Interparliamentary Affairs
Office of the General Counsel
Office of the Historian
Office of Inspector General
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. House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician
Joint Economic Committee
Joint Committee on the Library
Joint Committee on Printing
Joint Committee on Taxation
Joint Select Committee on Deficit Reduction

Revolving Funds

Revolving Fund Activities consist of all financial activity related to the operations of all House revolving fund accounts.

The **Revolving Funds** financial information aggregates transactions of:

House Child Care Center
House Recording Studio
House Services
Net Expenses of Equipment
Net Expenses of Telecommunications
Stationery

B. Basis of Consolidation

The consolidated financial statements include the accounts and significant activities of the House. All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information, except for the Statement of Budgetary Resources which is presented on a combined basis in accordance with the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

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

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

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

- Attending Physician
- Joint Economic Committee
- Joint Committee on the Library
- Joint Committee on Printing
- Joint Committee on Taxation
- Joint Select Committee on Deficit Reduction

C. Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the OMB Circular No. A-136, *Financial Reporting Requirements*.

While the House is a Legislative Branch entity, it has elected to incorporate many of the Federal government Executive Branch agency financial management and reporting standards that management deems necessary for the fair presentation of financial statement information.

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized 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 budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities.

While these statements have been prepared from the records of the House in accordance with GAAP and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

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

The U.S. Treasury processes cash receipts and disbursements for the House through its cash management services. Fund Balance with Treasury represents the aggregate amount of House fund accounts with the U.S. Treasury available to pay current liabilities and finance authorized purchases. Fund Balance with Treasury consists of balances for general fund expenditure accounts, revolving funds, and other fund types as of the end of the fiscal year. Fund Balance with Treasury also includes 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. The House also maintains an account related to Special Fund Receipts and Other Fund Types. Cash and other monetary assets include cash on hand that represents deposits in transit and amounts held in a commercial bank account. (See Note 2)

The following describes the type of funds maintained by the House:

General Fund Expenditure Accounts are fund accounts used to record amounts appropriated by Congress for the general support of the Federal government.

Revolving Funds are fund accounts used to record funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. Receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress.

Special Fund Receipt Accounts are fund accounts used to record receipts from specific sources earmarked by law for specific purposes.

Other Fund Types include General Fund Receipt and Deposit Fund accounts. General Fund Receipt accounts are used to record all receipts not earmarked by law for a specific purpose. These receipts may include miscellaneous recoveries and refunds and fines and penalties. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year. Deposit Fund accounts are used to record monies withheld from Federal government payments for goods and services received pending payment; and receipts and disbursements awaiting determination of the proper accounting classification.

E. Accounts Receivable, Net

Accounts Receivable represents amounts due to the House from Federal entities, Members, employees and/or vendors for money, goods, and services less an Allowance for Doubtful Accounts. Accounts Receivable primarily arises from provision of goods and services, commissions, and overpayments. Allowance for Doubtful Accounts is based on an analysis of outstanding accounts, aging methodologies and historical collection experience. Intragovernmental accounts receivable are generally considered to be fully collectible. (See Note 3)

F. Inventory and Related Property, Net

Inventory is tangible personal property that is held for sale. The Chief Administrative Office (CAO) Office Supply Service and Gift Shop maintain an inventory of supplies and merchandise purchased for resale to the public. Inventories for sale are valued at the moving weighted average method.

Operating Material and Supplies are tangible personal property to be consumed during normal operations. The CAO Logistics and Support Office maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials purchased by the House for use in its operations. The CAO House Information Resources Office maintains inventories of such items as fiber jumpers to support network connectivity and patch cords to support desktop computers. 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. (See Note 4)

G. General Property and Equipment, Net

General Property and Equipment consists of office and computer equipment, furniture, vehicles, software, assets acquired under capital leases, leasehold improvements and work in process. The House capitalizes property and equipment when the acquisition cost equals or exceeds an established threshold and has a useful life of two years or more. The costs of such items are recognized as assets when acquired.

Property and equipment are capitalized if the unit acquisition cost is equal to or greater than \$25,000 and the item has a useful life of two years or more with the exception of software. Software is capitalized if the unit acquisition cost is equal to or greater than \$10,000 and the item has a useful life of two years or more. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of the fiscal year.

An appropriate portion of an asset's value is reduced and an expense for depreciation or amortization is recognized over the accounting periods benefited by the asset's use. 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 equipment, furniture, 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.

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. (See Note 5)

The House also entered into capital leases for building structures. Assets under capital leases 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 lower of net present value or fair market 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 lower of net present value of the minimum lease payments or fair market value at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. (See Note 9)

House office buildings and land occupied by Members and employees in Washington, D.C. are under the custody of the Architect of the Capitol (AOC) and are excluded from the House's property and equipment accounts. The House recognizes an imputed cost and related imputed financing source in its financial statements for the costs associated with House office buildings. (See Notes 1K and 15)

H. Stewardship Property and Equipment

Stewardship Property, Plant and Equipment (PP&E) includes heritage assets and stewardship land. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets consist of collection-type heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and non-collection-type heritage assets, such as parks, memorials, monuments, and buildings. These assets are expected to be preserved indefinitely. The House's heritage assets are considered collection-type heritage assets and consist primarily of historical artwork and artifacts.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is included in general PP&E on the Balance Sheet. The House office buildings and land occupied and used by Members and employees in Washington, D.C. meet the criteria of multi-use heritage assets. Stewardship responsibility for these multi-use heritage assets is maintained by the AOC and disclosed on its financial statements. The House does not possess multi-use heritage assets or stewardship land.

Heritage assets are disclosed on the Balance Sheet as a note reference with no asset amount shown, and are generally not included in the general PP&E. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, matching costs with specific periods would not be meaningful. (See Note 6 and Required Supplementary Information)

I. 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 and consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are payments made in advance of the receipt of goods and services. Prepayments include payments for subscriptions and software integration activities and are initially recorded as expenses. At year-end, all such payments made for the current year are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. (See Note 7)

J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are amounts due to others as a result of items received, services rendered, expenses incurred, assets acquired and construction or work in process regardless of whether invoices have been received. Liabilities also represent amounts received that have not yet been earned. Liabilities covered by budgetary resources are liabilities incurred that will be covered by available budgetary resources encompassing not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Liabilities not covered by budgetary resources include unfunded liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity. (See Note 8)

The House's liabilities include:

Accounts Payable that represent amounts owed for the cost of goods and services received but not yet paid. The House estimates certain accounts payable balances based on methodology that encompasses historical data and the first month's financial activity of the subsequent fiscal year.

Advances from Others that represent advance payments received from other Federal government entities for shared services, in advance of the delivery of these services. As the services are rendered the Advances from Others account is drawn down and the appropriate revenue is recognized. The House received payments in advance of receipt of shared services from the Library of Congress.

Capital Lease Liability that represents the portion recorded at the lower of net present value or fair market value of the minimum lease payments at lease inception.

Unfunded Workers' Compensation Actuarial Liability that represents 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 the U.S. Department of Labor (DOL). 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.

Accrued Payroll and Benefits and Annual Leave that represent both a funded and unfunded liability. 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.

Accrued payroll and benefits include salaries and associated benefits earned in the current fiscal year and paid in the subsequent fiscal year.

Annual leave for the House Officers, the Inspector General and their employees is accrued as earned, and the liability is reduced as leave is taken. 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). The House utilizes actual hours to calculate the liability. Sick and other types of paid leave are expensed as they are taken. 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 and other select House 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, Leadership and select House offices is estimated on the financial statements. In FY 2012, the estimate was based on a three-year average of actual annual leave paid.

Other Intragovernmental Liabilities that represent the Accrued workers' compensation amount billed by DOL that will be paid in subsequent fiscal years and Unemployment compensation amounts owed to DOL.

Other Public Liabilities that represent amounts held pending proper accounting disposition or amounts withheld from payments for goods and services received pending payment.

K. Revenue and Other Financing Sources

Appropriations

The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year.

Exchange and Non-Exchange Revenue

The House classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value; and is recognized when goods have been delivered or services rendered. The House's exchange revenue consists of (1) sales of goods to the public for Office Supply Service and Gift Shop sales; (2) sales of services to the public for child care fees, photography sales, postal fees and Attending Physician fees; (3) interoffice sales between House entities for graphic services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication; and (4) other revenue for vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment from the public (e.g., taxes, duties, fines, and penalties) but also includes donations. The House reports non-exchange revenue collected from donations for the Reduction of Public Debt and Ethics Fines.

Imputed Financing from Cost Absorbed by Others (and Related Imputed Costs)

The House must recognize the amount of cost incurred by a Federal entity for goods or services provided and paid for in total, or in part, by other Federal entities. Since the cost is not actually reimbursed to these Federal entities, an imputed financing source is also recognized to offset the costs financed by the entities. The imputed cost and imputed financing source for costs are associated with the occupancy of the U.S. Capitol and House office buildings under the custody of the AOC and the Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

Occupancy Cost:

The House must recognize an occupancy cost for the U.S. Capitol and House office buildings under the custody of the AOC that are occupied by Members and staff in Washington, D.C. The House office buildings are comprised of the Cannon, Ford, Longworth, Rayburn, and other buildings and facilities. The AOC receives an appropriation for the maintenance, care and operations of the House office buildings, facilities and grounds; and costs associated with the acquisition and maintenance of the land and buildings is accounted for by the AOC.

The imputed occupancy cost for the U.S. Capitol and House office buildings is calculated by multiplying the gross square footage of the buildings by the estimated per square foot value. A common area factor of 11% was applied to the gross square footage. The industry standard rental rate increase of 1.7% over FY 2011 is reflected in the FY 2012 occupancy costs.

Federal Employee and Veterans' Benefits Cost:

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. The pension expense recognized in the Statement of Net Cost 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.

The House does not receive an appropriation to fund this cost. Therefore, this portion of the pension cost is considered an imputed financing source to the House, and is included in the Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position.

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 the Statement of Net Cost. 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 from Costs Absorbed by Others on the Statement of Changes in Net Position. (See Note 15)

L. Personnel and Benefits Compensation

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. (See Note 12)

M. 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. The House has single, multi and no-year appropriations. For multi-year appropriations the House alternates each fiscal year between 15-month and 27-month multi-year funding. Funds cancel two years after expiration and are no longer available for obligation or expenditure for any purpose and are returned to the U.S. Treasury.

Cumulative Results of Operations

The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

N. 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 2 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

Fund Balances with Treasury (FBWT) as of September 30, 2012 and 2011 were:

Fund Balance with Treasury	2012	2011
General and Other Funds		
House maintained	\$ 153,191,222	\$ 205,533,568
Congressional Use of Foreign Currency	34,831,086	34,778,677
Total General and Other Funds	188,022,308	240,312,245
Revolving Funds	27,291,082	24,279,710
Total	\$ 215,313,390	\$ 264,591,955

Status of Fund Balance with Treasury as of September 30, 2012 and 2011 were:

Status of Fund Balance with Treasury	2012	2011
Unobligated Balance		
Available	\$ 121,986,647	\$ 72,061,195
Unavailable	5,707,971	63,504,552
Obligated Balance not yet Disbursed	88,480,376	129,889,820
Other Funds	(861,604)	(863,612)
Total	\$ 215,313,390	\$ 264,591,955

Other funds represent deposit funds held at the U.S. Treasury.

Cash and Other Monetary Assets as of September 30, 2012 and 2011 were:

Cash and Other Monetary Assets	2012	2011
Cash on Hand	\$ 2,948	\$ 520
Total	\$ 2,948	\$ 520

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2012 and 2011 were:

Appropriations	2012	2011
2010 (single year)	\$ 23,125,275	\$ -
2009 (single year)	-	28,317,552
2008 (single year)	-	-
2008/2009 (multi-year)	-	2,992,048
2007/2009 (multi-year)	-	119,404
Total	\$ 23,125,275	\$ 31,429,004

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of September 30, 2012 and 2011 were:

Accounts Receivable, Net	2012	2011
Intragovernmental		
Accounts Receivable	\$ 66,867	\$ 536,949
Total Intragovernmental	66,867	536,949
With the Public		
Accounts Receivable	498,248	847,845
Allowance for Doubtful Accounts	(50,916)	(375,521)
Total With the Public	447,332	472,324
Total	\$ 514,199	\$ 1,009,273

NOTE 4 - INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property, Net as of September 30, 2012 and 2011 were:

Inventory and Related Property, Net	2012	2011
Operating Materials and Supplies Held for Use	\$ 494,183	\$ 605,982
Inventory Purchased for Resale	872,443	764,632
Total	\$ 1,366,626	\$ 1,370,614

NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET

General Property and Equipment, Net as of September 30, 2012 and 2011 and the related depreciation and amortization expense were:

2012 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost	Depreciation	Net Book Value	Depreciation Expense
Work in Process	N/A	\$ 1,512,496	\$ -	\$ 1,512,496	\$ -
Computer Software in Development	N/A	425,831	-	425,831	-
Computer Software and Hardware	3	121,017,657	100,072,191	20,945,466	18,883,665
Assets Under Capital Lease	10	1,354,473	1,185,163	169,310	135,447
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	70,121,652	54,157,337	15,964,315	6,692,430
Motor Vehicles	5	10,514,590	10,335,711	178,879	94,979
Furnishings and Other Equipment	10	1,271,323	712,333	558,990	73,304
Leasehold Improvements	10	9,085,375	8,378,656	706,719	738,633
Total		\$ 215,817,765	\$ 175,355,759	\$ 40,462,006	\$ 26,618,458

2011 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost	Depreciation	Net Book Value	Depreciation Expense
Work in Process	N/A	\$ 7,135,646	\$ -	\$ 7,135,646	\$ -
Computer Software in Development	N/A	-	-	-	-
Computer Software and Hardware	3	117,328,100	90,497,664	26,830,436	16,524,948
Assets Under Capital Lease	10	1,354,473	1,049,717	304,756	920,326
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	64,189,651	49,634,910	14,554,741	6,495,089
Motor Vehicles	5	10,734,180	10,460,322	273,858	8,021
Furnishings and Other Equipment	10	1,520,060	887,766	632,294	46,690
Leasehold Improvements	10	9,085,375	7,640,024	1,445,351	908,538
Total		\$ 211,861,853	\$ 160,684,771	\$ 51,177,082	\$ 24,903,612

NOTE 6 – STEWARDSHIP PROPERTY AND EQUIPMENT

Physical counts for collection-type heritage assets as of September 30, 2012 and 2011 were:

Heritage Assets	2011	Additions	Withdrawals	2012
Artwork	319	1	-	320
Artifacts	4,511	256	131	4,636
Total	4,830	257	131	4,956

The House’s heritage assets are directly related to its mission to document and preserve the legislative integrity and traditions of the institution. Permanent authority for the Clerk of the House originated in the opening days of the First Congress, when John Beckley was elected Clerk on April 1, 1789, pursuant to Article I of the Constitution: “The House of Representatives shall chuse (sic) their Speaker and other Officers....” The Clerk’s responsibilities to document and preserve the activities of Congress have grown over the centuries, and are found in Rules VII and XI of the House, and by the Rules of the House of Representatives Fine Arts Board, established via 40 USC Sec. 188c (Public Law 100-696 [Title X]).

The House’s stewardship responsibility for its heritage assets includes those in or associated with the House, its legislative history, Members and institutional heritage. Under the provisions of the House of Representatives Fine Arts Board, the Clerk is responsible for the administration, maintenance, and display of the works of fine art and other similar property of the Congress for display or for other use in the House wing of the Capitol, the House Office Buildings, or any other location under the control of the House in accordance with Public Law 100-696. The House’s heritage assets are curated by the House Curator in the Clerk’s Office of History and Preservation. The House Curator maintains records, both paper and electronic, for works of art and artifacts. Staff and resources are devoted to the conservation and preservation of heritage assets, using professional standards established by the American Institute for Conservation and the National Archives and Records Administration. These standards provide for cleaning, storing, displaying, handling and protecting the House’s heritage assets.

The House acquires heritage assets by purchase, transfer from Federal entities, gift, or by provision of federal law. Prior to acquiring these assets, the House Curator, on behalf of the Clerk and the House of Representatives Fine Art Board, ensures they meet minimum standards as required by the American Association of Museum’s ethics guidelines and standards and best practices for accessioning of objects into museum collections. The House’s collections continue to increase as it acquires additional assets and few items have been retired or disposed of to date.

Deaccessioning of objects and related withdrawals or disposals will only occur if the House Curator, in accordance with the American Association of Museum’s guidelines and best practices, determines the asset is in irretrievable condition; does not meet the needs of the collection; or withdraws due to exchange or gift of unwanted or duplicate copies. Staff ensure that heritage assets remain in good condition, carefully preserving and saving these treasures for present and future generations.

The Required Supplementary Information section of this report provides additional information on the condition of stewardship heritage assets.

Descriptions of the types of heritage assets are:

Artwork

The House’s artwork encompasses oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media.

Artifacts

The House’s historical artifacts include objects in all media, including but not limited to paper, metal, plaster, wood, textile and stone.

NOTE 7 - ADVANCES AND PREPAYMENTS

Advances and Prepayments as of September 30, 2012 and 2011 were:

Advances and Prepayments	2012	2011
Intragovernmental	\$ 10,756	\$ 11,359
Public	4,170,614	6,537,610
Total	\$ 4,181,370	\$ 6,548,969

NOTE 8 - LIABILITIES

Liabilities are classified as either current or non-current. Current liabilities refer to liabilities that are expected to settle within 12 months of the Balance Sheet date. Non-current refers to liabilities that are expected to settle more than 12 months of the Balance Sheet date.

Liabilities covered and not covered by budgetary resources as of September 30, 2012 and 2011 were:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2012
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	\$ 5,580,540	\$ -	\$ -	\$ -	\$ 5,580,540
Advances from Others	113,286	-	-	-	113,286
Capital Lease Liability	19,586	-	260,427	72,862	352,875
Other Liabilities					
Accrued Benefits	2,025,772	-	-	-	2,025,772
Accrued Workers' Compensation	2,258,804	-	-	-	2,258,804
Unemployment Compensation	562,991	-	-	-	562,991
Other Deposit Liabilities	(858,025)	-	-	-	(858,025)
Total Other Liabilities	3,989,542	-	-	-	3,989,542
Total Intragovernmental Liabilities	9,702,954	-	260,427	72,862	10,036,243
Public Liabilities					
Accounts Payable	28,888,518	-	-	-	28,888,518
Actuarial FECA Liability	-	-	-	25,969,234	25,969,234
Accrued Payroll and Benefits	6,664,806	-	-	-	6,664,806
Unfunded Accrued Annual Leave	-	-	-	7,391,503	7,391,503
Capital Lease Liability	-	-	-	-	-
Other Liabilities	159,493	-	-	-	159,493
Total Public Liabilities	35,712,817	-	-	33,360,737	69,073,554
Total	\$ 45,415,771	\$ -	\$ 260,427	\$ 33,433,599	\$ 79,109,797

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2011
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	\$ 4,879,398	\$ -	\$ -	\$ -	\$ 4,879,398
Advances from Others	55,167	-	-	-	55,167
Capital Lease Liability	-	-	216,082	333,289	549,371
Other Liabilities					
Accrued Benefits	1,996,751	-	-	-	1,996,751
Accrued Workers' Compensation	1,960,697	849,611	-	-	2,810,308
Unemployment Compensation	1,086,075	-	-	-	1,086,075
Other Deposit Liabilities	(859,203)	-	-	-	(859,203)
Total Other Liabilities	4,184,320	849,611	-	-	5,033,931
Total Intragovernmental Liabilities	9,118,885	849,611	216,082	333,289	10,517,867
Public Liabilities					
Accounts Payable	27,391,752	-	-	-	27,391,752
Actuarial FECA Liability	-	-	-	21,290,084	21,290,084
Accrued Payroll and Benefits	7,150,990	-	-	-	7,150,990
Unfunded Accrued Annual Leave	-	-	-	7,823,711	7,823,711
Capital Lease Liability	-	-	-	-	-
Other Liabilities	174,548	-	-	-	174,548
Total Public Liabilities	34,717,290	-	-	29,113,795	63,831,085
Total	\$ 43,836,175	\$ 849,611	\$ 216,082	\$ 29,447,084	\$ 74,348,952

NOTE 9 - LEASE COMMITMENTS

Capital Leases

Assets Under Capital Lease as of September 30, 2012 and 2011 were:

Summary of Assets Under Capital Lease	2012	2011
Building Structures	\$ 1,354,473	\$ 1,354,473
Accumulated Depreciation	(1,185,163)	(1,049,717)
Total	\$ 169,310	\$ 304,756

Future Capital Lease Payments Due as of September 30, 2012 were:

Year	Building Structures
2013	\$ 326,547
2014	75,154
2015	-
2016	-
2017	-
Thereafter	-
Total Future Capital Lease Payments	401,701
Less: Imputed Interest	(48,826)
Less: Executory Costs	-
Net Capital Lease Liability	\$ 352,875

The House maintained capital leases for building structures. The occupancy agreement for the building structures lease includes multi-year funding obligations of the tenant that state the agreement is cancelable upon 30 days written notice. Space relinquishment rights and obligations state the agreement is cancelable by providing 30 days written notice to the

U.S. General Services Administration. The House also agrees that its right to not renew the lease for a fiscal year is limited solely to the House not obtaining an appropriation for the year in an amount equal to or in excess of lease payments for the year. The House may terminate the agreement in whole or in part as prescribed in the agreed upon settlement methodology.

Operating Leases

Future Operating Lease Payments Due as of September 30, 2012 were:

Year	Vehicles	Office Space	Parking	Total
2013	\$ 265,734	\$ 6,881,215	\$ 150,921	\$ 7,297,870
2014	131,549	912,359	73,641	1,117,549
Total	\$ 397,283	\$ 7,793,574	\$ 224,562	\$ 8,415,419

The House maintains operating leases for vehicles and district office space and parking. The lease agreements are in accordance with House rules and regulations and agreed upon vendor terms and conditions. In accordance with the Members' Congressional Handbook, the House requires that leases entered into by Members for space be no longer than the elected term of the Member. 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.

The House enters into operating leases for temporary usage of office space, vehicles, software, computers and other equipment. 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 the U.S. General Services Administration or may directly lease space from the private sector.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. The House does not have any contingencies where the sacrifice of resources is probable. The House is currently involved in two lawsuits where the sacrifice of federal resources is reasonably possible. However, the House cannot predict at this time with any degree of accuracy the range of potential loss in the event of an unfavorable outcome.

NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental Costs and Exchange Revenue as of September 30, 2012 and 2011 were:

Intragovernmental Costs and Exchange Revenue	2012	2011
Legislative Activities		
Intragovernmental Costs	\$ 311,774,166	\$ 305,071,890
Public Costs	1,305,332,682	1,322,161,805
Total Costs	1,617,106,848	1,627,233,695
Intragovernmental Earned Revenue	(3,622,335)	(4,340,676)
Public Earned Revenue	(499,896)	(452,722)
Total Earned Revenue	(4,122,231)	(4,793,398)
Net Program Costs	1,612,984,617	1,622,440,297
Revolving Funds		
Intragovernmental Costs	213,094	310,732
Public Costs	1,325,849	751,922
Total Costs	1,538,943	1,062,654
Intragovernmental Earned Revenue	(2,051,851)	(2,025,838)
Public Earned Revenue	(3,378,287)	(4,200,548)
Total Earned Revenue	(5,430,138)	(6,226,386)
Net Program Costs	(3,891,195)	(5,163,732)
Total		
Intragovernmental Costs	311,987,260	305,382,622
Public Costs	1,306,658,531	1,322,913,727
Total Costs	1,618,645,791	1,628,296,349
Intragovernmental Earned Revenue	(5,674,186)	(6,366,514)
Public Earned Revenue	(3,878,183)	(4,653,270)
Total Earned Revenue	(9,552,369)	(11,019,784)
Net Cost of Operations	\$ 1,609,093,422	\$ 1,617,276,565

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government and are disclosed separately from costs and exchange revenue with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The net cost of the House's operations includes gross costs incurred by the House less any exchange revenue earned from House activities.

NOTE 12 - PERSONNEL AND BENEFITS COMPENSATION

Member and Employee Personnel and Benefits Compensation	2012	2011
Personnel Compensation	\$ 770,981,237	\$ 799,432,590
Retirement Plan Contributions	155,132,137	154,883,688
Social Security	52,455,732	54,193,051
Health Insurance	54,496,708	53,535,627
Student Loan/Fitness Center Programs	15,270,909	15,000,442
Unemployment and Workers' Compensation	5,005,870	8,695,409
Transit Benefits	2,619,738	2,929,905
Life Insurance	1,170,593	1,234,815
Death Benefits	731,845	1,066,549
Annual Leave	(432,208)	1,131,424
Allowances	25,000	25,386
Workers' Compensation Actuarial Adjustment	4,679,150	1,169,510
Total	\$ 1,062,136,711	\$ 1,093,298,396

NOTE 13 - EMERGENCY PREPAREDNESS

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation. Approximately \$21 million and \$16 million were expended in 2012 and 2011, respectively.

NOTE 14 - EXCHANGE REVENUES

Reporting entities that provide goods and services to the public or another Government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged by the House for the sale of goods and services are set by House rules and regulations, which for program and other reasons may not represent full cost. In other cases, prices set for goods and services are intended to recover the full costs incurred by these activities (e.g., child care fees, postal fees, and Gift Shop sales to the public).

NOTE 15 - IMPUTED FINANCING FROM COST ABSORBED BY OTHERS

The House must recognize an imputed cost and imputed financing source for costs associated with the occupancy of the U.S. Capitol and House office buildings and Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

Imputed Cost and Financing Source	2012	2011
Occupancy Costs	\$ 162,390,135	\$ 159,547,757
Federal Employee and Veteran's Benefits		
Current Service Cost – Federal Employees Health Benefits	48,611,215	52,300,799
Current Service Cost – Federal Pensions	18,198,342	23,713,369
Current Service Cost – Federal Employees Group Life Insurance	114,593	118,963
Total Federal Employee and Veteran's Benefits	66,924,150	76,133,131
Claims Paid by the U.S. Treasury's Judgment Fund on behalf of the House	132,665	-
Total	\$ 229,446,950	\$ 235,680,888

The House reached a settlement agreement in a lawsuit whereby the amount has not been determined nor paid from the Judgment Fund.

NOTE 16 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders represent the amount of paid and unpaid orders for goods and/or services ordered which have not been received.

Undelivered Orders as of September 30, 2012 and 2011 were:

Undelivered Orders at the End of the Period	2012	2011
Undelivered Orders, Unpaid	\$ 42,444,374	\$ 83,890,729
Undelivered Orders, Paid	4,181,370	6,548,969
Total	\$ 46,625,744	\$ 90,439,698

NOTE 17 - PERMANENT INDEFINITE APPROPRIATIONS

A permanent and indefinite appropriation is a standing appropriation which, once made, is always available for specified purposes and does not require repeated action by Congress to authorize its use. Legislation authorizing an agency to retain and use offsetting receipts tends to be permanent; if so, it is a form of permanent appropriation. This appropriation is for an unspecified amount of money; and may appropriate all or part of the receipts from certain sources, the specific amount of which is determinable only at some future date, or it may appropriate "such sums as may be necessary" for a given purpose.

The House has two permanent and indefinite appropriations. These appropriations include the Compensation of Members and Related Administrative Expenses and Congressional Use of Foreign Currency.

- Compensation of Members and Related Administrative Expenses is maintained and administered by the House. Public Law 97-51, Sec. 130(c), Oct. 1, 1981, 95 Stat. 966, "Appropriation of funds for Compensation of Members of Congress and for Administrative Expenses at Levels Authorized by Law and Recommended by the President for Federal Employees". The appropriation funds the payroll and benefits compensation for Members of Congress and related administrative expenses in support of administering the fund.

- Congressional Use of Foreign Currency is maintained and administered by the Department of State on behalf of the House. 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. 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.

NOTE 18 - EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The Budget of the U.S. Government with actual amounts for the year ended September 30, 2012 has not been published as of the issue date of these financial statements. This document will be available in February 2013.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2011 were:

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government	Budgetary Resources	Net Outlays
Statement of Budgetary Resources	\$ 1,430,483,150	\$ 1,370,717,456
Reclassification of Rescission	(2,655,966)	-
Miscellaneous	172,816	(717,456)
Subtotal	(2,483,150)	(717,456)
Budget of the U.S. Government	\$ 1,428,000,000	\$ 1,370,000,000

NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 1,350,963,400	\$ 1,389,966,753
Less: Spending Authority from Offsetting Collections and Recoveries	(28,866,129)	(30,009,758)
Obligations Net of Offsetting Collections and Recoveries	1,322,097,271	1,359,956,995
Less: Offsetting Receipts	-	-
Net Obligations	1,322,097,271	1,359,956,995
Other Resources		
Donations/Forfeited Property	-	-
Transfers in/out Without Reimbursement	-	-
Imputed Financing from Costs Absorbed by Others	229,446,950	235,680,888
Net Other Resources Used to Finance Activities	229,446,950	235,680,888
Total Resources Used to Finance Activities	1,551,544,221	1,595,637,883
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(43,872,073)	(11,089,996)
Resources that Fund Expenses Recognized in Prior Periods	-	1,584,775
Budgetary Receipts and Offsetting Collections that do not affect Statement of Net Cost	(43,051)	-
Resources that Finance the Acquisition of Assets	20,645,707	16,558,901
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost	(348,166)	65,152
Total Resources Used to Finance Items not Part of the Net Cost of Ops	(23,617,583)	7,118,832
Total Resources Used to Finance the Net Cost of Operations	\$ 1,575,161,804	\$ 1,588,519,051
Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase/(Decrease) in Annual Leave Liability	\$ (432,208)	\$ 1,131,424
(Increase)/Decrease in exchange revenue receivable	819,679	(435,275)
Other	4,679,150	1,930,783
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	5,066,621	2,626,932
Components not Requiring or Generating Resources:		
Depreciation and Amortization	26,618,458	24,903,612
Revaluation of Assets or Liabilities	81,299	149,820
Other	2,165,240	1,077,150
Total Components of Net Cost of Operations not Requiring or Generating Resources	28,864,997	26,130,582
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	33,931,618	28,757,514
Net Cost of Operations	\$ 1,609,093,422	\$ 1,617,276,565

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Required Supplementary Information

Required Supplementary Information

Stewardship Property and Equipment

The U.S. House of Representatives (House) collection of heritage assets includes historical artwork and artifacts that reflect the rich heritage and evolving nature of the House. The institution mirrors the changing face and history of the nation. These ideals and trials of our history are also expressed in the heritage assets whose subject matter includes prominent Americans and other distinguished individuals, significant moments in history, and symbolic representations of the nation’s rich and diverse history.

The House’s Curator manages and cares for the House’s collection of works of art and artifacts under its jurisdiction which are located throughout the U.S. Capitol complex including House office buildings and other locations under the control of the House. Since these locations are not in a museum setting, works of art and artifacts may be subject to damage from contact and surface deposits. However, it is the House’s goal to preserve its heritage assets and manage the condition in accordance with the intended usage of the collection. The House conducts periodic assessments to monitor, inspect and evaluate the condition of the heritage assets to determine the current condition for preservation or restoration efforts. These assessments are performed in accordance with House established practice and professional standards. General conditions are categorized as excellent, good, fair and poor. The House has determined its heritage assets to be in good to excellent condition.

The following tables present the general condition of the House’s heritage assets and indicate an aggregate condition of the collection as of September 30, 2012:

Heritage Asset Collection	Description	2011	Increase	Decrease	2012	General Condition
Artwork	The works of art include oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media. These items range from portraits and historical documents to statues and other works of art.	319	1	-	320	Good to Excellent

Examples of the House’s collection of works of art include:

Oil Paintings

The House’s collection of oil paintings primarily consists of the portraits of House of Representatives’ Speakers and Committee Chairmen. An example includes that of Speaker Henry Clay by Guiseppe Fagnani in 1852. His portrait was the first of what became Speaker’s portraits series in the House Collection. This portrait series became official with House Resolution 164 in 1910, which decreed that the service of every speaker be commemorated with an oil portrait. All Speaker portraits hang in the Speaker’s Lobby and in the East and West Chamber stairways that adjoin it.

Acrylic Paintings

The House’s collection of acrylic paintings includes Committee portraits painted in acrylic on canvas. One such example is the portrait of former Chairman of the Committee on Appropriations, George Mahon.

Works on Paper

The House’s collection of works on paper includes items such as an early 19th century sketch of Speaker Jonathan Dayton.

Sculptures

The House’s collection of sculptures includes items such as several marble busts of former Speakers of the House, including Speakers Thomas B. Reed, Joseph G. Cannon, James Beauchamp Clark, and Nicholas Longworth.

Heritage Asset Collection	Description	2011	Increase	Decrease	2012	General Condition
Artifacts	The artifacts include items in various types of media, including but not limited to paper, metal, plaster, wood, textile and stone. These items range from photographs and other historical images, literature (e.g., newspapers, magazines, and handbills), and political campaign buttons to engravings, furniture, and other types of historical artifacts.	4,511	256	131	4,636	Good to Excellent

Examples of the House’s collection of artifacts include:

Paper

The House’s collection of paper artifacts include items such as photographs of the House of Representatives Chamber in 1937; Visitor’s Gallery passes from various Representatives from the early 1900’s; detail of a tally sheet of the February 9, 1825 Electoral College vote from the records of the U.S. House of Representatives with the names of Andrew Jackson of Tennessee, John Quincy Adams of Massachusetts, William H. Crawford of Georgia, and Henry Clay of Kentucky appearing written in longhand; and Campaign Cards and other memorabilia of various Representatives dating back to the early 1900s.

Metal

The House’s collection of metal artifacts includes items such as an artifact of the House Chamber, the historic inkwell that sits on the Speakers desk when the House is in session, which dates back to the 19th century. The inkwell is known to have been used as long ago as 1821 in the Old Hall of the House before the Members moved to the present chamber.

Plaster

The House’s collection of plaster artifacts include items such as several small 1932 busts of George Washington, presented to Members of Congress on the bicentennial of the first president’s birth.

Wood

The House's collection of wood artifacts includes items such as the gavel used by Speaker Nancy Pelosi to open the 110th Congress as the first woman to serve as the House's presiding officer; and an 1819 desk and chair from the House Chamber.

Textile

The House's collection of textile artifacts includes items such as a recent House Page uniform, donated to the collection by a former Page.

Stone

The House's collection of stone artifacts includes items such as a small piece of the U.S. Capitol East front stairs.

Other Accompanying Information

U.S. HOUSE OF REPRESENTATIVES
Schedule of Spending
For the Year Ended September 30, 2012

	2012
What Money is Available to Spend?	
Total Resources	\$ 1,478,658,018
Less Amount Available but Not Agreed to be Spent	(121,986,647)
Less Amount Not Available to be Spent	(5,707,971)
Total Amounts Agreed to be Spent	1,350,963,400
 How was the Money Spent?	
Object Class	
11 Personnel Compensation	773,739,044
12 Personnel Benefits	284,123,491
13 Benefits to Former Personnel	2,073,789
21 Travel	33,147,378
22 Transportation of Things	115,834
23 Rent, Communications, Utilities	96,715,993
24 Printing and Reproduction	28,728,711
25 Other Services	76,018,402
26 Supplies and Materials	28,443,654
31 Equipment	67,700,961
42 Insurance Claims & Indemnities	1,804
Total Spending	1,390,809,061
Amount Remaining to be Spent	(39,845,661)
Total Amounts Agreed to be Spent	\$ 1,350,963,400

