



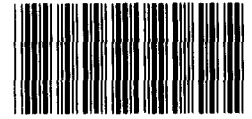
United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-199096

August 4, 1992

Mr. Richard A. Hauser  
Chairman  
Pennsylvania Avenue Development  
Corporation



147254

Dear Mr. Hauser:

We have reviewed your fiscal year 1991 audited financial statements and believe that several modifications are needed to enhance their accuracy and disclosure. These changes can be incorporated into your 1992 financial statements with restated comparative information for 1991, and are presented as an enclosure to this letter. In addition to accounting issues 1 through 4, we noted in issue number 5 that Treasury incorrectly transferred to PADC \$516,275, which should be returned to Treasury or paid to the Federal Financing Bank for interest.

We have discussed these modifications by phone with Mr. Alvin Milin, PADC Controller, and present this letter as a basis for further discussion with PADC management and your outside auditors. Should you have any question concerning this matter, please call Roger Stoltz, Assistant Director, at (202) 275-9408.

Sincerely yours,

Donald H. Chapin  
Assistant Comptroller General

Enclosure

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#54039/ 147254

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION  
FINANCIAL STATEMENT MODIFICATIONS

1. Accrued Interest Payable to FFB

As stated in footnote 2, PADC's Basis of Accounting is accrual accounting in accordance with Title 2 (Section I 20.02), which states that interest expense shall be accrued as incurred. Reference to OMB Bulletin 91-02, which requires that interest be recorded only when paid, should be deleted from footnote 2--Federal Triangle Act Responsibilities. The footnote should be revised to state that accrued interest on FFB construction advances is capitalized (Title 2, Section C10).

On PADC's 1991 statement of financial position, the amount of accrued interest should be calculated and added to construction-in-progress and a liability line added for accrued interest payable to FFB. The 1991 statement of financial position should be restated for the construction-in-progress and accrued interest amounts.

2. Commitments

Title 2 is based upon Financial Accounting Standards Board accounting principles, including FASB No. 47 "Disclosures of Long-Term Obligations." The Federal Triangle Project is a material construction commitment, thus footnote 19 should contain a subcaption "construction commitments" with possible wording as follows:

"On November \_\_\_\_, 1990 PADC entered into an agreement with a developer to construct the Federal Triangle Project at an estimated cost of \$656 million to be completed by \_\_\_\_\_. Accumulated construction-in-progress costs for this project as of September 30, 1992 and 1991, were \_\_\_\_ million and \$32.5 million, respectively."

A description and amount of other material project construction commitments should also be considered for disclosure.

### 3. Property and Equipment

Footnote 2 discusses Land and Land Development Costs and Construction in Progress and states that there are costs associated with property held for sale or lease, and costs associated with public improvements that will be retained by PADC or its successor. We believe that it would be helpful to know the breakdown of these categories either on the statement of financial position or in a footnote. On property held for sale or lease, PADC plans to recover its costs plus make a profit. Costs associated with public improvements have been paid by appropriations. You may also wish to report the Federal Triangle Project separately within construction-in-progress due to its eventual size.

Your policy on construction-in progress discussed in footnote 2 states that at the completion of the project as a whole, the account balance will be reclassified as land and land development costs. We understand that a large amount of the \$138 million balance represents public improvements, 85 percent of which have been completed and placed into service. We believe that this completed portion should be reclassified as land and land development costs, particularly since interest expense is not being capitalized.

### 4. U.S. Treasury Interest

Footnote 11, Interest Payments to the U.S. Treasury, discloses that 1991's interest cost was \$11,804,421, of which \$1,749,579 was capitalized, leaving \$10,054,842 charged to the operations statement. However, PADC's statement of operation indicates only \$9,913,217 of interest expense, leaving a difference of \$141,625. We understand that this difference was incorrectly classified as property management expense and should be reclassified as interest expense.

### 5. Treasury Transfer of FFB Interest

The cash flows from financing activities for 1991 indicated receipt of a Treasury transfer of \$516,275 for FFB interest, yet footnote 2, Federal Triangle Act Responsibilities, states that interest is not recorded on these borrowings. We understand that this amount, which is incorrectly included in unexpended appropriations, should be transferred back to the Treasury or paid to FFB.

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