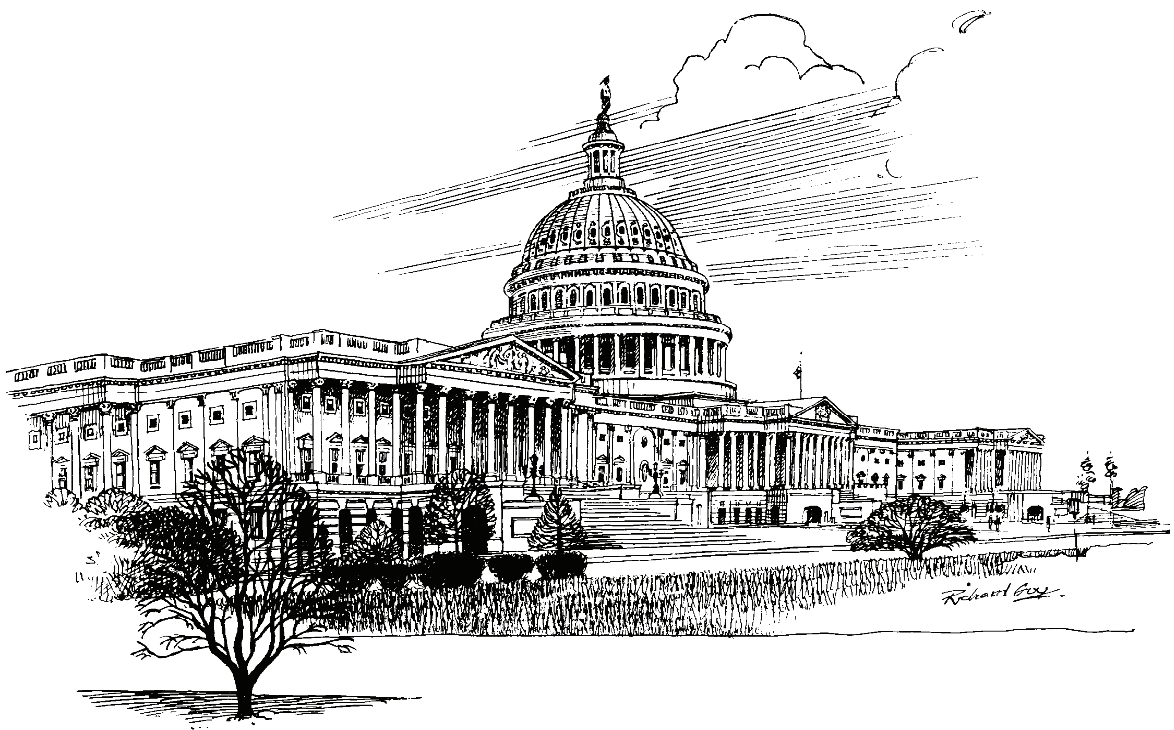
UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

Audit of the Financial Statements
For the Fiscal Year Ended September 30, 2010
Report No. 11-HSW-15
September 21, 2011



U.S. HOUSE OF REPRESENTATIVES

Table of Contents

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Office of Inspector General Audit Report Summary

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ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2010

SUMMARY

This audit report presents the audited Annual Financial Statements of the U.S. House of Representatives (House) for the fiscal year ended September 30, 2010. We contracted with the independent certified public accounting firm, Cotton and Company LLP, to audit the House financial statements, to provide opinion on the effectiveness of internal control over financial reporting, and to report any reportable noncompliance with tested laws and regulations. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards.

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

The audit found the House did not have effective internal control over financial reporting. The auditors identified three significant deficiencies, two of which represent material weaknesses, in internal control over financial reporting. The two material weaknesses relate to a lack of a management control program and ineffective controls over information technology. The remaining significant deficiency relates to ineffective financial reporting controls and general ledger system reporting limitations. Management concurred with the auditor's report and has contracted with a professional services firm to assist in addressing the internal control deficiencies with planned date for completing corrective actions by September 30, 2011.

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 July 27, 2011 and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the House's financial statements or 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
FY 2010

Introduction

Management's Discussion and Analysis (MDA) provides a high level overview of the origin and mission of the House of Representatives. Fiscal Year 2010 (October 1, 2009 – September 30, 2010) coincided with the 111th session of the U.S. Congress.

Origin, History, and Mission

The United States 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 Capitol Building 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 allow for the creation of standing, select and joint committees. During the 111th Congress there were 20 standing committees of the House: Agriculture; Appropriations; Armed Services; the Budget; Education and Labor; Energy and Commerce; Financial Services; Foreign Affairs; Homeland Security; House Administration; the Judiciary; Natural Resources; Oversight and Government Reform; Rules; Science and Technology; Small Business; Standards of Official Conduct; Transportation and Infrastructure; Veterans' Affairs; and Ways and Means.

HOUSE LEADERSHIP

Article 1, Section 1 of the Constitution states, "The House of Representatives shall choose 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 OFFICES

Rule II of the Rules of the House for the 111th 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 the Rules of the House for the 111th Congress, the Chief Administrative Officer held operational and financial responsibility for functions of the House as assigned by the Committee on House Administration, subject to the oversight of the Committee. 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. In addition, 111th Congress, 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 (FY) 2009 and 2010 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 2010 of $1.6 billion, up 8 percent from FY 2009. The House reported $141 million of total unpaid obligated balances as of fiscal year end (FYE) 2010.

Balance Sheet

Total Assets – The House reported total assets of $312 million as of FYE 2010, a 10 percent increase from the prior year $284 million. The Fund Balance with Treasury of $240 million represents the primary asset on the Balance Sheet of the House (77 percent of total assets), followed by Property and Equipment with a net balance of $67 million.

Total Liabilities – The House reported total liabilities of $78 million as of FYE 2010, a 12 percent decrease from the prior year total of $88 million. The primary categories include Accounts Payable of $35 million (45 percent of total liabilities) and Actuarial Federal Employees' Compensation Act Liabilities of $20 million (26 percent of total liabilities).

Total Net Position - The Net Position as of FYE 2010 was $235 million, an increase of $40 million (20 percent) from the prior fiscal year. The balance was primarily comprised of Unexpended Appropriations of $179 million.

Statement of Net Cost

Net Cost of Operations – The Net Cost of Operations for FY 2010 was $1.7 billion, a slight increase from $1.6 billion reported for FY 2009, primarily comprised of Legislative Activities.

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.

INTERNAL CONTROLS

The House considers internal controls to be an integral part of all systems and processes that the organization utilizes in managing its daily operations and achieving its strategic goals and objectives. The House holds its managers accountable for efficiently and effectively performing their duties in compliance with applicable laws and regulations and for maintaining the integrity of their activities through the use of internal controls.

The House fiscal year 2010 financial statement audit reported two material weaknesses and a significant deficiency. The material weaknesses related to the lack of an internal control over financial reporting program and controls over information technology at the House. The significant deficiency related to financial reporting processes.

The Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Controls emphasize management's responsibility for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and complying with applicable laws and regulations. The House is committed to fully implementing a program to assess the effectiveness of the organization's internal controls over financial reporting. However, the House is in the early stages of standing-up an internal controls program that meets the intent of OMB Circular A-123 and, thus, are unable to provide assurance that our internal controls over financial reporting are operating effectively.

The House has initiated actions to implement an internal controls program that will substantially resolve the reported weaknesses. These actions include the creation of a Senior Assessment Team responsible for the oversight and implementation activities of the program that has set the tone from the top. In addition, the House has designated an individual to assist in the design, implementation, monitoring, and modification of a House internal controls program. The internal controls program will be implemented during fiscal year 2011.

In addition, the House has taken significant actions to remediate the information technology material weakness. These actions include revisions to the system security plans and testing of information technology controls. Actions are scheduled to be completed during FY 2011 in relation to key financial and general support systems.

Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP conducted the fiscal years (FYs) 2010 and 2009 financial statement audits of the U.S. House of Representatives (House) in accordance with generally accepted auditing standards in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In our audits of House FYs 2010 and 2009 financial statements, we found:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- The House did not have effective internal control over financial reporting as of September 30, 2010 (including safeguarding assets).
- We identified no reportable noncompliance with laws and regulations we tested.

The House received an unqualified opinion on FYs 2010 and 2009 financial statements. Although the House was able to produce financial statements that were fairly presented, it lacked a management control program to ensure effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or a monitoring program. We identified the lack of a management control program as a material weakness[1]. Additionally, we identified controls over information technology as a material weakness.

House management focused on improving internal controls during FY 2010. This effort included hiring an individual with responsibility over a management control program and contracting with a professional services firm to implement a management control program. The House, however, did not implement the program in FY 2010, but has targeted it to be in place during FY 2011.

The following sections discuss these conclusions in more detail as well as our conclusions on Management's Discussion and Analysis and required supplementary information; our objectives, scope, and methodology; and House comments and our evaluation.

[1] A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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 House's assets, liabilities, and net position as of September 30, 2010, and September 30, 2009, and net costs, changes in net position, and budgetary resources for the fiscal years then ended.

OPINION ON INTERNAL CONTROL

Because of the material weaknesses in internal control discussed below, the House did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2010, and thus did not provide reasonable assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis.

Our opinion is based on criteria established under 31 U.S.C. 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. Additionally, guidance provided by Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, is issued under authority of FMFIA and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The COSO framework and OMB Circular A-123 represent Industry best practices for establishing a successful management control program. For the remainder of this report, we will refer to guidance prescribed by COSO and OMB Circular A-123 as industry best practices.

During our audit of the House's FY 2010 financial statements, we identified three significant deficiencies[2]. The first two issues identified below represent material weaknesses in internal control over financial reporting. The three significant deficiencies identified below were reported in prior years and are discussed in Appendix A of this report:

1. Lack of a Management Control Program (Material Weakness)
2. Ineffective Controls over Information Technology (Material Weakness)
3. Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations

The two material weaknesses created significant management challenges that:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete, accurate, and prepared in a timely manner.

- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.

For significant errors and issues that were identified, the House made necessary adjustments to the financial statements, notes accompanying the financial statements, and other required supplementary information, as appropriate, and was therefore able to prepare financial statements that were fairly

[2] 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.

stated in all material respects for FYs 2010 and 2009. However, the material weaknesses in the House's internal control over financial reporting noted may adversely affect information used by House management that is based, in whole or in part, on information that is inaccurate because of these weaknesses. In addition, unaudited financial information reported by the House may also contain misstatements resulting from these weaknesses.

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the House's FY 2010 financial statements. We caution that misstatements may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We also identified other deficiencies in the House's system of internal control that we do not consider material weaknesses or significant deficiencies, but which merit House management attention and correction. We have communicated these matters to House management informally and, as appropriate, will report them in writing to the House.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of the House's compliance with selected provisions of laws and regulations for FY 2010 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or 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.

CONSISTENCY OF OTHER INFORMATION

The House's Management's Discussion and Analysis and required supplementary information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. We did, however, compare this information for consistency with the financial statements and discussed the methods of measurement and presentation with House officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

OBJECTIVES, SCOPE, AND METHODOLOGY

House management is responsible for:

1. Preparing financial statements in conformity with U.S. generally accepted accounting principles.

2. Establishing and maintaining effective internal control over financial reporting and assessing its effectiveness.

3. Complying with applicable laws and regulations.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether House financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and whether House management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010. We are also responsible for testing compliance with selected provisions of laws and requirements that have a direct and material effect on the financial statements and performing limited procedures with respect to certain other information accompanying the financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting 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 over financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority).

- Assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting.

- Evaluated the design and operating effectiveness of internal control over financial reporting based on assessed risk.

- Tested relevant internal controls over financial reporting and compliance and evaluated design and operating effectiveness of internal control.

- Tested compliance with selected provisions of laws and regulations specific to the House, which are contained in the *Members' Congressional Handbook* and *Committees' Congressional Handbook.*

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- **Compliance with laws and regulations:** Transactions are executed in accordance with selected provision of laws and regulations that have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations in internal control, misstatements due to error or fraud, loss, or noncompliance may nevertheless occur and not be detected. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate as the result of changes in conditions, or that the degree of compliance with controls may deteriorate.

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, 2010. 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 government auditing standards and OMB audit guidance. We believe our audit provides a reasonable basis for our opinions 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

July 27, 2011
Alexandria, Virginia

APPENDIX A
MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES NOTED DURING FY 2010 FINANCIAL STATEMENT AUDIT

APPENDIX A
MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES NOTED DURING FY 2010 FINANCIAL STATEMENT AUDIT

During our audit of the House's FY 2010 financial statements, we identified three significant deficiencies in internal control over financial reporting, which are described in this appendix. We consider two of these to be material weaknesses that created significant management challenges. These weaknesses:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete, accurate, and prepared in a timely manner.

- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.

Weakness 1: **Lack of a Management Control Program**
Summary Status: **Material Weakness**
Prior-Year Condition
Open

House management lacked a management control program that ensured effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or monitoring program to ensure effective internal controls. Although the House was able to produce financial statements that were fairly presented in all material respects, it lacked a management control program that ensured effective internal control over financial reporting.

OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*, addresses the assessment, documentation, and reporting on the effectiveness of internal control over financial reporting to assure Congress and the public that the Federal government is committed to safeguarding its assets and providing reliable financial information. Internal control is broadly defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The objectives relevant to internal control over financial reporting are those pertaining to reliability of financial reporting.

Internal control consists of the following five interrelated components:

1. **Control Environment.** The control environment sets the tone of an organization and is the foundation for all other components of internal control.

2. **Risk Assessment.** For an agency to exercise effective control, it must establish objectives and understand the risks that could undermine achievement of those objectives. Risk assessment is the identification and analysis of relevant risks to achieving objectives, forming a basis for determining

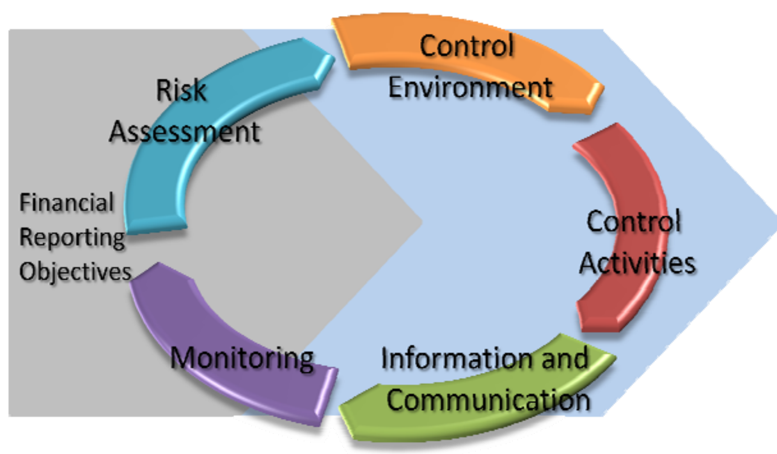
how risks should be managed. For purposes of assessing internal control over financial reporting, management should identify the risks of a material misstatement in the financial statements.

3. **Control Activities.** Control activities are policies and procedures that help ensure that management's directives are carried out. Control activities occur throughout the organization, at all levels and in all functions. They include the fundamentals of internal control, such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, and segregation of duties.

4. **Information and Communication.** Pertinent information must be identified, captured, and communicated in an effective manner to enable individuals to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that make it possible to run and control the business. These systems not only deal with internally-generated data, but also with information about external events necessary for informed business decision-making and external reporting (e.g., industry, economic, and regulatory information). Effective communication must also occur throughout and among all levels of the organization.

5. **Monitoring.** Monitoring is the continuous process that management uses to assess the quality of internal control over time. Ongoing monitoring occurs in the ordinary course of operations and includes regular management and supervisory activities. Periodic monitoring involves less frequent activities performed by senior management. Monitoring also encompasses a process for reporting deficiencies and undertaking remediation efforts.

The illustration below depicts an effective management control program that includes all five components of an internal control framework as it relates to financial reporting objectives:



While each component is important in establishing an effective internal control program, risk assessment is the first critical step in the process to determine the extent of controls necessary to ensure effective internal control over financial reporting. Monitoring is the strength behind an internal control program, because it identifies poorly designed or ineffective controls and measures the effectiveness of all internal control activities.

Lack of Risk Assessment and Monitoring

The House has not identified both internal and external risks that may prevent the agency from meeting its objectives. The process of identifying and analyzing risk is a critical component of an effective internal control system that includes how management identifies risks relevant to the preparation of financial statements and information; assesses the likelihood of the manifestation of those risks; and decides upon actions to manage and mitigate those risks. The House also has not analyzed these risks for their potential effect or impact on the agency.

During FY 2010, House management focused on improving internal controls by hiring an individual with responsibility over a management control program. It also contracted with a professional services firm to implement a management control program.

As of September 30, 2010, House management had not implemented a monitoring program to include periodic reviews, reconciliations, or comparisons of data to determine if existing control activities are designed and operating effectively. Furthermore, House management had not redesigned or improved its controls found to be deficient or communicated internal control objectives to ensure that the agency is committed to sustaining an effective control environment.

These identified weaknesses give rise to significant management challenges that reduce assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected in a timely manner. Successfully implementing a management control program is critical to the House for achieving accountability and transparency.

Recommendation

We recommend that the Chief Administrative Officer (CAO) continue to work with its contractor to implement an annual management controls evaluation program to ensure controls are designed, implemented, and operating effectively. We recommend that the House consider implementing a program consistent with that outlined by OMB Circular A-123, Appendix A. We further recommend that the House use the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123 (July 2005). This guide recommends the following steps for establishing an effective management control program.

- **Planning**. Establish a Senior Assessment Team and determine the overall approach, to include determining the scope (identify significant reports), determining materiality, considering organizational structure, determining key processes, assessing risk, integrating and coordinating review activities, planning monitoring and testing approaches, and developing documentation standards.

- **Evaluating Internal Control at the Entity Level**. Document and assess entity-wide controls.

- **Evaluating Internal Control at the Process Level**. Gain an understanding of key financial reporting processes, including general and application controls, identify key controls, and assess the adequacy of control design.

- **Testing Control Design and Operating Effectiveness at the Transaction Level**. Test and document the operating effectiveness of controls.

- **Concluding, Reporting and Correcting**. Determine if controls are operationally effective based on test results, assessments of compensating controls, and identified material weaknesses in internal control over financial reporting.

Weakness 2: **Ineffective Controls over Information Technology**
Summary Status: **Material Weakness**
Prior-Year Condition
Open

The House has not adopted an information technology (IT) controls framework or implemented an overarching IT security program that ensures a strong general controls environment for information systems and data processing. Management has not implemented, documented, or tested sufficient internal controls over the general IT environment to ensure that financial data are complete, accurate, and reliable. We noted the following 12 conditions related to internal controls over information systems that collectively represent a material weakness in the control environment.

a. A process or program has not been created to identify, document, and assess IT internal controls to provide reasonable assurance regarding the accuracy and reliability of data processing for financial reporting.

Management has not assigned responsibility for managing IT internal controls and developing a program to assess IT internal controls over financial reporting. Management has not assessed IT internal controls to provide assurance that IT internal controls are effective and operating as intended. This increases the risk that the financial reporting process could produce incomplete, inaccurate, or even fraudulent data.

During FY 2010, House management engaged a contractor to establish a management controls program. The House did not implement these efforts in FY 2010, but has targeted them to be in place during FY 2011.

b. A process has not been implemented to ensure that all major systems within the House IT environment have undergone a risk management process, such as the Certification and Accreditation (C&A) process defined by National Institute of Standards and Technology (NIST).

House Information Security Policy (HISPOL) for the Information Security Compliance Program 007.0 requires that all major systems, support systems, and applications undergo a C&A process before implementation and at least every 2 years thereafter. The House has not tracked the progress or implementation status for HISPOL 007.0 and has not developed a formal information systems inventory identifying all systems and applications operating within the House environment. Without identification of all systems and applications, management cannot effectively implement and ensure compliance with HISPOL 007.0.

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

SSPs were inadequate for the House network, Lawson, Procurement Desktop (PD), Member Payroll (MP), and Fixed Asset and Inventory Management System (FAIMS). Management has not enforced policies ensuring that all systems have accurate and complete security control documentation. SSPs did not enumerate and document minimum security controls based on system criticality and data.

Additionally, SSPs were not maintained and updated in accordance with HISPOL 007.0. SSPs for the House network, Lawson, PD, MP, and FAIMS have not been updated on an annual basis. Because management did not enforce policies requiring accurate and complete SSP documentation, the risk increases that all recommended system security controls, based on the criticality of data processed, are not in place. Also, because minimum security controls are not identified and enumerated, testing of individual controls is not possible.

d. Security control assessments were not conducted to test the design and operating effectiveness of implemented controls for the House network and financial systems. Management relied on system scans to substitute for control assessments.

Management has not identified and documented specific minimum security controls for the House network and financial systems in respective SSPs and thus cannot conduct security control assessments. Further, if it has not conducted security control assessments, management cannot gain assurance that all required controls are in place and operating effectively. This increases the risk that the confidentiality, integrity, and availability of financial data within systems may be compromised. By placing reliance on system scans alone, which test some technical controls, management cannot gain assurance over management or operational controls.

e. The information systems change control process for financial systems and data did not include adequate documentation to ensure that all changes were adequately managed, tested, and approved.

Evidence of testing system changes before implementation was not retained. Evidence of testing, including test plans, expected results, and actual results, was not developed and maintained for changes made to the major payroll system, Lawson. Additionally, supporting evidence for the upgrade and migration of MP into Lawson completed in FY 2010 was not sufficiently documented to detail change specifications, test plans, expected tested results, key decisions, and approvals. Some decisions made during the project among external contractors, project owners, and business owners were made during meetings and were verbal in nature.

Without a thorough change control process, the risk increases that changes are not being managed effectively and efficiently. Without documentation of testing, the risk increases that changes are being implemented in the absence of sufficient testing, thereby introducing possible system errors or even malicious code into the House production environment. Without change specifications, management cannot review or manage the change process to ensure that the impact of changes has been fully addressed. Furthermore, without a structured and documented change management process, management cannot ensure the ongoing confidentiality, integrity, and availability of its systems and data.

f. 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.

Records of security incidents identified by Information Security were not maintained, and follow-up investigations were not conducted. A process to document, track, and test corrective actions related to audit recommendations and ensure that identified weaknesses are corrected was not in place. Also, a Plan of Action and Milestones (POA&M) has not been developed or maintained for financial systems and applications.

By not identifying and tracking all security weaknesses, management cannot ensure that appropriate and timely corrective action is taken to address all known issues and weaknesses. This increases the risk that a significant security weakness will remain vulnerable for an extended period of time.

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

Account management policies and procedures have not been adequately implemented or followed by CAO management. Access requests and approvals were not appropriately captured for accounts at the network level (Active Directory), inactive accounts and accounts for terminated individuals at both the network and financial application levels were not removed in a timely manner, and periodic recertification of the House network and financial applications was not completed in accordance with House policies. We noted the following:

- 19 of the 45 selected network accounts created in FY 2010 did not have a help desk ticket tracking the account request and approval, as required by House policies.

- One employee retained active user access to Federal Financial System (FFS) after the individual's termination date.

- The quarterly Lawson access recertification was not initiated by the Lawson system owner, and it also did not involve the data owners who recertify user access, as required by House policies.

- The semi-annual access recertification of FFS was not performed, as required by House policies.

- The quarterly network access recertification was completed based on the login activity of the network account, rather than on the continued appropriateness of access.

For 1,209 CAO active directory accounts:

- 60 accounts were previously logged in (4.96% of total accounts), but were inactive longer than 180 days. Of those 60 accounts, only 23 were disabled.

- 166 accounts have never been logged into (13.73% of total accounts). Of those 166 accounts, 133 were disabled.

- 9 accounts (8 created in FY 2010) did not require a password to log into the House network.

Also, one of the 13 contractors noted as terminated during the FY 2009 financial statement audit continued to have active network access in FY 2010.

The risk that accounts may be used by unauthorized individuals to conduct inappropriate or malicious acts increases by failure to remove inactive and terminated users in a timely manner, complete access recertifications appropriately, and document access requests and approvals.

h. Management has not conducted adequate oversight of the outsourced financial system, FFS.

In accordance with Statement on Auditing Standards (SAS) 70, *Service Organizations,* management should review the *Report on Controls Placed in Operation and Tests of Operating Effectiveness* provided by its service provider, National Business Center (NBC). Additionally, management should complete an assessment of user control considerations identified by NBC that are necessary to achieve NBC's control objectives included in the SAS 70 report.

During FY 2010, CAO management documented the review of the FFS SAS 70 report and its risk acceptance related to oversight of FFS, because FFS was soon to be replaced when the House implemented a new accounting system in FY 2011. The risk acceptance process did not, however, include an assessment of system controls to ensure that House financial data are being adequately protected.

Without reviewing and assessing FFS controls, the risk is increased that the confidentiality, integrity, and availability of FFS data may be compromised, thus leading to the possibility of inaccurate or fraudulent financial reporting.

A recommendation is no longer provided for this, because FFS was discontinued at the end of FY 2010. This condition did, however, exist during the fiscal year under audit.

i. Contingency planning and recovery policies and procedures have not been developed and implemented to ensure a comprehensive approach that includes the House network, FFS, and all critical financial systems.

Contingency plans to coordinate recovery activities between the House network and all critical financial systems have not been developed. Without developed and tested contingency plans, the risk is increased 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.

j. Active Directory domain controllers were not adequately configured and monitored to ensure compliance with House policy and industry best practices.

Management has not enforced HISPOL 007.1.11, *Windows 2003 Server Security Checklist*, developed by House Information Security, to ensure that domain controller configuration settings comply with House policy. We reviewed settings deployed to production domain controllers and identified 49 settings that deviated from the Center for Information Security (CIS) Windows Server 2003 Benchmark, which is considered an industry best practice. Of these 49 deviations:

- 22 did not comply with HISPOL 007.1.11.
- 14 resulted from configuration settings not covered in HISPOL 007.1.11.
- 13 complied with HISPOL 007.1.11, but the HISPOL configurations did not match the CIS benchmark.

k. Policies and procedures for segregation of duties within financial systems have not been developed.

Policies and procedures have not been developed and implemented to ensure that principles of proper segregation of incompatible duties are understood by key personnel and enforced by financial applications. Specifically, policies and procedures have not been developed, documented, and implemented to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end-user and administrative levels. Without proper segregation-of-duties controls in place for financial applications, financial data may be manipulated by unauthorized individuals. Subsequently, the risk increases that fraudulent acts may go undetected, and financial data may become inaccurate and unreliable.

l. Physical access controls have not been adequately designed, managed, and enforced for the House datacenter at Site 3.

CAO management has not appropriately identified controls restricting the number of individuals with physical access to sensitive information resources. The datacenter is a co-located facility supporting other legislative branch organizations in addition to the House. Servers supporting the House financial applications are not physically separated from other datacenter tenants. Therefore, personnel with access permissions to the datacenter have physical access to the financial application servers. Overall, access to the House datacenter and servers is permitted to more individuals, including some supporting other organizations, than is needed for House business requirements.

Additionally, House management does not have an effective process to authorize and review access to the Site 3 datacenter. The House manually maintains a Site 3 access listing for the annual physical access recertification. The House access list does not reconcile to the proximity card system maintained by United States Capitol Police, which is responsible for control of physical access to the datacenter.

Lack of proper physical controls over critical servers and infrastructure increases the risk that an unauthorized individual will be able to gain access to financial systems and compromise the confidentiality, integrity, and availability of the financial applications.

Recommendations

We recommend that the CAO:

2a. Develop and implement a process to identify, document, and assess IT internal controls in accordance with OMB Circular A-123.

2b. Implement and enforce a risk management framework to ensure that all systems are identified and undergo a security assessment process in accordance with House policy and industry best practices for federal information systems.

2c. Update SSPs for the House network and all financial systems to include enumerating minimum security controls based on the criticality and environment of the system and documenting these controls in accordance with industry best practices.

2d. Conduct and document security control assessments for the House network and financial systems to test the design and operating effectiveness of all implemented controls. For each control tested, we recommend that documentation include the description of the implemented control, test steps to be conducted, expected test results, and actual test results.

2e. Develop and implement a change control process for all financial systems that ensures all changes are tracked, tested, and approved. This includes developing and maintaining documentation for all changes, including change specifications, approvals, test plans, and test results.

2f. 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, to include the following:

- Developing a procedure to test security controls identified as corrected to ensure that actions taken adequately mitigate or correct identified weaknesses.

- Developing and maintaining a POA&M, or equivalent documentation, for all House systems and applications to track security weaknesses as well as issues noted as a result of audits.

- Maintaining documentation for all identified security incidents throughout the House and ensuring that appropriate follow-up investigations are performed.

2g. Develop, document, and implement a comprehensive account management process for network and financial-application levels to ensure that:

- Inactive accounts and accounts for terminated employees and contractors are disabled and removed in a timely manner.

- Account recertifications are completed on an approved, predefined schedule by appropriate staff and determine whether continued access is required and that the access type is appropriate.

- Requests for access are documented, approved, and maintained.

2h. No recommendation.

2i. Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network and all critical financial systems.

2j. Ensure that configuration settings documented in HISPOL 007.1.11 include industry best practices, such as benchmarks approved by NIST, and document any deviations. Additionally, ensure that configuration settings documented in HISPOL 007.1.11 are enforced for all domain controllers.

2k. Develop, document, and implement policies and procedures to ensure that:

- CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end-user and administrative levels.

- Segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.

2l. Develop, document, and implement a process to ensure that physical access to House information systems is appropriately limited to only those personnel with a valid business need by performing a periodic, complete physical access recertification and further securing the financial application infrastructure by limiting access to only House personnel.

Weakness 3: **Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations**

Summary Status: **Significant Deficiency**
Prior-Year Condition
Open

Weaknesses in procedures used to ensure the completeness and accuracy of yearend financial statements and footnote disclosures adversely affected the House's ability to initiate, authorize, record, process, or report financial data reliability in accordance with U.S. generally accepted accounting principles and guidance contained in OMB Circular A-136.

OMB Circular A-123 states:

> *Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:*
>
> 1. *All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);*
> 2. *All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);*
> 3. *All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);*
> 4. *All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);*
> 5. *The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);*
> 6. *The transactions are in compliance with applicable laws and regulations (compliance);*
> 7. *All assets have been safeguarded against fraud and abuse; and*
> 8. *Documentation for internal control, all transactions, and other significant events is readily available for examination.*

We identified weaknesses in three of the eight assertions identified above (Nos. 1, 5, and 8). Our findings and associated recommendations for corrective actions are provided below in order of significance.

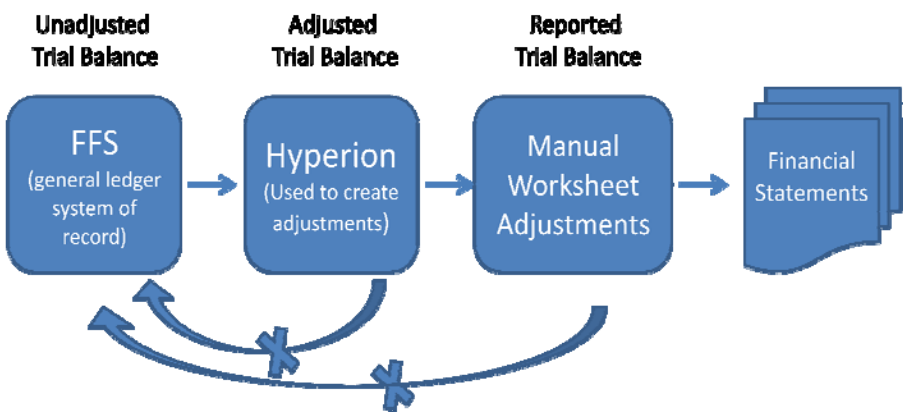
a. Financial transactions were not recorded in FFS (Assertion No. 8).

Members' payroll and benefits as well as related operating expenses, which total over $100 million annually, were not recorded in the House financial system of record, FFS. Rather, financial activity was tracked and recorded using QuickBooks. Financial activity was reported at the summary level as a Hyperion adjustment on the financial statements at yearend.

In accordance with GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded in the system of record to maintain their relevance and value to management in controlling operations and making decisions. Controls over design and use of records do not provide reasonable assurance that transactions and events are recorded accurately.

b. Manual worksheet adjustments were required to compile the financial statements and were not recorded in FFS (Assertion No. 8).

The House used worksheet adjustments recorded outside of FFS and Hyperion to compile financial statements. These worksheet adjustments record both current-period activities and correct beginning balances. The complexity of worksheet adjustments increases the risk of errors in reported amounts. The current reporting work flow is as follows:



Beginning balance adjustments are necessary, because the effect of Hyperion and worksheet adjustments is not recorded in FFS.

Adjustments were also used to record the effect of budgetary accounting events not recorded before FY 2009. In FY 2009, the House first prepared financial statements using U.S. generally accepted accounting principles for federal entities. The House determined the accounting for budgetary accounting events not recorded before FY 2009, but required for financial reporting, and tracked closing amounts in MS Excel worksheets. These worksheet adjustments were not recorded in FFS. The House continued to manually track these adjustments during FY 2010.

Based on GAO's *Standards for Internal Control in the Federal Government*, 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.

c. The House overstated its upward and downward adjustments to prior-year obligations (Assertion No. 1).

FFS did not record upward and downward adjustments of prior-year obligations. The Accounting Department developed a manual methodology to determine these balances based on accounting events, transaction codes, and transaction types. The methodology included transactions that are not upward or downward adjustments to prior-year obligations such as:

- Recognizing transactions that did not reference an obligation at the time of payment as upward adjustments.

- Recognizing transactions as both upward and downward adjustments when orders changed from undelivered to delivered and from unpaid to paid even if the obligation amount did not increase or decrease(i.e. from GL 4801: Undelivered Orders, Unpaid, to 4901: Delivered Order, Unpaid, or 4902: Delivered Orders, Paid).

The U.S. Standard General Ledger (USSGL) states that upward and downward adjustments of prior-year obligation accounts represent the amount of current year upward or downward adjustments to obligations originally recorded in a prior fiscal year.

As a result, the House overstated its upward adjustment balance by $80 million and overstated its downward adjustment balance by $56 million.

d. The House did not properly report unobligated balances (Assertion No. 5).

The House did not properly report unobligated balances in the Statement of Budgetary Resources (SBR). It reported $40 million of available unobligated balances as apportioned. Because the House's budgetary resources do not require OMB apportionment before obligation, these amounts should be reported in the Unobligated Balances – Available: Exempt from Apportionment line of the SBR.

FFS uses USSGL Accounts 4510, Apportionments, and 4610, Allotments – Realized Resources, to recognize appropriated money available for obligation, instead of correctly recording these balances in USSGL 4620, Unobligated Funds Exempt from Apportionment.

e. The House reported obligated balances incurred improperly on the SBR (Assertion No. 5).

The House did not report approximately $27 million of Reimbursable Obligations incurred on the SBR. Rather, it reported all obligations incurred as direct. OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, states that:

> *…if your account includes reimbursable obligations, show the obligations financed by reimbursements separately from direct obligations… [a] reimbursable obligation means an obligation financed by offsetting collections credited to an expenditure account in payment for goods and services provided by that account.*

f. The House recorded accounts receivable activity as summary-level entries (Assertion No. 8)

The Accounting Department recorded receivables for duplicate payments and payroll overpayments quarterly at a summary level. Transactions were summarized by Members, Committees, Leadership, Offices, and Joint Items and then recorded to FFS. Transaction-level details of the entries are maintained in MS Excel. As amounts were collected or resolved, accounts receivable was reduced at transactional level in FFS.

Statement on Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, states:

> *A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.*

These receivables are not recorded when the claim is established. The lack of a clear audit trail in the financial system of record leaves the House susceptible to error and increases the risk of misstatements. In addition, users are unable to efficiently analyze receivables or determine open amounts.

Recommendations

We recommend that the CAO:

3a. Ensure that all Members' payroll and benefits and related financial activity is recorded in the system of record as transactions occur.

3b. Discontinue the use of worksheet adjustments and ensure that all worksheet adjustments reported to date are recorded in the system of record.

3c. Ensure that the posting logic for upward and downward adjustments of prior-year obligations is configured properly and in use in the system of record.

3d. Ensure that the posting logic in the system of records available unobligated balances in USSGL 4620, Unobligated Balances Exempt from Apportionment, and ensure that balances are reported on the Unobligated Balances – Available: Exempt from Apportionment line on the SBR.

3e. Ensure that direct and reimbursable obligations are tracked and properly reported on the SBR.

3f. Develop standard operating procedures related to recording duplicate payments and payroll overpayments and ensure that accounts receivable transactions are recorded in the system of record at the transaction level.

Status of Prior-Year Findings

In the audit report on the House's FY 2009 financial statements, several issues were noted related to internal control over financial reporting. The table below presents a summary of our of internal control findings.

Control Deficiency	2009 Status	2010 Status
Lack of a Management Control Program	Material Weakness	Material Weakness
Ineffective Controls over Information Technology	Material Weakness	Material Weakness
Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations	Significant Deficiency	Significant Deficiency
Weakness in Processing and Reporting Payroll Data	Significant Deficiency	Deficiency

APPENDIX B
MANAGEMENT'S RESPONSE TO
FY 2010 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: Theresa M. Grafenstine
Inspector General

From: Daniel J. Strodel
Chief Administrative Officer

Subject: Chief Administrative Officer responses to the *Fiscal Year 2010 Financial Statement Audit Report*

Date: June 27, 2011

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2010. We have reviewed and concur with the two material weaknesses and one significant deficiency and the corresponding recommendations contained in the report. The Chief Administrative Office (CAO) provided responses during the audit process for each of the specific findings. Brief summaries of our actions related to these issues are outlined below.

Weakness 1 - The CAO has contracted with a professional services firm to establish and implement an internal controls program over financial reporting to ensure that controls are documented, designed, implemented, and operating effectively. The CAO expects to finalize these efforts by September 30, 2011. The results of management's assessment will be included in the fiscal year 2011 management discussion and analysis section of the financial statement audit report.

Weakness 2 – The House has adopted and is currently implementing an information technology (IT) controls framework based on industry best practices that will help ensure a strong general controls environment for information systems and data processing. Management is currently documenting and testing internal controls over the IT environment to ensure that financial data are complete, accurate, and reliable. To date, management has completed updates to the system security plans for the primary systems involved in the financial reporting process. Certification and accreditation testing is currently in progress and additional testing based on government auditing methodology is currently in progress. Actions are scheduled to be completed by September 30, 2011.

Weakness 3 – The CAO implemented enterprise application software (PeopleSoft) in October, 2010. The financial system and enhanced controls will result in improved financial controls. The CAO expects to complete remediation of the actions during fiscal year 2011.

We recognize that the achievement of an unqualified financial statement opinion was accomplished through the joint efforts of your staff, contract auditors, and the 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.

Fiscal Year 2010 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) 2010 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 2010 consisted of the following:

• The **Balance Sheet**, which presents as of September 30, 2010 and 2009 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 year ended September 30, 2010 and 2009. 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 year ended September 30, 2010 and 2009.

• The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2010 and FY 2009, the status of these resources at September 30, 2010 and 2009, the change in obligated balance during FY 2010 and FY 2009, and net outlays of budgetary resources for the year ended September 30, 2010 and 2009.

U.S. HOUSE OF REPRESENTATIVES
Consolidated Balance Sheet
As of September 30, 2010 and 2009

	2010	2009
ASSETS		
Intergovernmental:		
Fund Balance with U.S. Treasury (Note 2)	$ 239,582,640	$ 213,204,524
Accounts Receivable, Net (Note 3)	78,437	192,014
Advances and Prepayments (Note 7)	13,776	-
Total Intragovernmental	239,674,853	213,396,538
Cash and Other Monetary Assets (Note 2)	1,092	1,653
Accounts Receivable, Net (Note 3)	138,469	197,560
Inventory and Operating Materials and Supplies (Note 4)	1,342,359	1,368,211
Property and Equipment, Net (Note 5)	67,323,285	63,212,805
Advances and Prepayments (Note 7)	4,011,514	5,454,320
Total Assets	**$ 312,491,572**	**$ 283,631,087**
Stewardship Property and Equipment (Note 6)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 1,481,153	$ 1,308,443
Advances from Others	1,578,859	641,483
Capital Lease Liabilities	728,659	877,417
Other Liabilities	2,412,889	2,478,995
Total Intragovernmental	6,201,560	5,306,338
Accounts Payable	33,784,385	43,104,203
Actuarial Federal Employees' Compensation Act Liabilities	20,120,574	21,458,664
Accrued Payroll and Benefits	9,042,252	9,170,015
Accrued Annual Leave	6,692,287	6,628,475
Capital Lease Liabilities	1,588,093	2,520,766
Other Liabilities	179,021	155,310
Total Liabilities (Note 8)	**$ 77,608,172**	**$ 88,343,771**
NET POSITION		
Unexpended Appropriations	$ 179,390,239	$ 155,434,854
Cumulative Results of Operations	55,493,161	39,852,462
Total Net Position (Note 15)	**$ 234,883,400**	**$ 195,287,316**
Total Liabilities and Net Position	**$ 312,491,572**	**$ 283,631,087**

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statement of Net Cost
For the Years Ended September 30, 2010 and 2009

	2010	2009
NET COST OF OPERATIONS (Note 11)		
Net Costs by Program Area		
Legislative Activities		
Gross Costs	$ 1,699,580,701	$ 1,574,306,418
Less: Earned Revenue	(11,411,145)	(10,419,254)
Net Program Costs	**1,688,169,556**	**1,563,887,164**
Revolving Funds		
Gross Costs	2,588,160	3,300,414
Less: Earned Revenue	(4,156,296)	(3,762,366)
Net Program Costs	**(1,568,136)**	**(461,952)**
Net Cost of Operations	**$ 1,686,601,420**	**$ 1,563,425,212**

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2010 and 2009

	2010	2009
Unexpended Appropriations		
Beginning Balance	$ 155,434,854	$ 101,638,132
Budgetary Financing Sources		
Appropriations Received	1,494,157,000	1,420,662,438
Appropriations Used	(1,456,300,736)	(1,361,899,910)
Other Adjustments	(13,900,879)	(4,965,806)
Total Budgetary Financing Sources	23,955,385	53,796,722
Total Unexpended Appropriations	**$ 179,390,239**	**$ 155,434,854**
Cumulative Results of Operations		
Beginning Balance	$ 39,852,462	$ 43,096,510
Budgetary Financing Sources		
Appropriations Used	1,456,300,736	1,361,899,910
Other Adjustments	7,010,612	(16,634,657)
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 16)	239,350,821	214,915,911
Other Adjustments	(420,050)	-
Total Financing Sources	1,702,242,119	1,560,181,164
Net Cost of Operations	(1,686,601,420)	(1,563,425,212)
Net Change	15,640,699	(3,244,048)
Total Cumulative Results of Operations	**$ 55,493,161**	**$ 39,852,462**
Net Position	**$ 234,883,400**	**$ 195,287,316**

U.S. HOUSE OF REPRESENTATIVES
Statement of Budgetary Resources
For the Years Ended September 30, 2010 and 2009

	2010	2009
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	$ 101,003,290	$ 58,406,661
Recoveries of Prior Year Unpaid Obligations	4,057,123	5,478,689
Budget Authority:		
Appropriations Received	1,494,157,000	1,420,662,438
Borrowing Authority	-	-
Contract Authority	-	-
Spending Authority from Offsetting Collections:		
Earned:		
Collected	28,517,145	33,931,073
Change in Receivable from Federal Sources	-	-
Change in Unfilled Customer Orders:		
Advances Received	1,498,029	(3,990,085)
Without Advance from Federal Sources	-	-
Anticipated for Rest of Year, Without Advances	-	-
Previously Unavailable	-	-
Expenditure Transfers from Trust Funds	-	-
Subtotal Budget Authority	$ 1,524,172,174	$ 1,450,603,426
Nonexpenditure Transfers, Net, Anticipated and Actual	-	-
Temporarily Not Available Pursuant to Public Law	-	-
Permanently Not Available (Cancelled)	(4,930,523)	(13,349,739)
Total Budgetary Resources	**$ 1,624,302,064**	**$ 1,501,139,037**
Status of Budgetary Resources		
Obligations Incurred:		
Direct	$ 1,498,490,639	$ 1,374,707,884
Reimbursable	27,223,280	25,427,863
Total Obligations Incurred	1,525,713,919	1,400,135,747
Unobligated Balances - Available:		
Apportioned	-	-
Exempt from Apportionment	39,575,858	41,529,592
Total Unobligated Balance - Available	39,575,858	41,529,592
Unobligated Balance - Not Available	59,012,287	59,473,698
Total Status of Budgetary Resources	**$ 1,624,302,064**	**$ 1,501,139,037**
Change in Obligated Balance		
Obligated Balance, Brought Forward, October 1		
Unpaid Obligations	$ 111,821,812	$ 110,088,474
Less: Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance, Brought Forward, October 1	111,821,812	110,088,474
Obligations Incurred, Net	1,525,713,919	1,400,135,747
Less: Gross Outlays	(1,492,291,910)	(1,392,923,720)
Obligated Balance Transferred, Net:		
Actual Transfers, Unpaid Obligations	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(4,057,123)	(5,478,689)
Change in Uncollected Customer Payments from Federal Sources	-	-
Obligated Balance, Net, End of Period:		
Unpaid Obligations	141,186,698	111,821,812
Less: Uncollected Payments from Federal Sources	-	-
Total Unpaid Obligated Balance, Net, End of Period	**$ 141,186,698**	**$ 111,821,812**
Net Outlays		
Gross Outlays	$ 1,492,291,910	$ 1,392,923,720
Less: Offsetting Collections	(30,015,174)	(29,940,988)
Total Net Outlays	**$ 1,462,276,736**	**$ 1,362,982,732**

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Notes to the Financial Statements

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 appoints unelected Officers to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The 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 111th Congress. The fiscal year 2010 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 111th Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Committees of the House under the 111th Congress are:

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and Labor
Committee on Energy and Commerce
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 and Technology
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure

Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence
Select Committee on Energy Independence and Global Warming

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 Emergency Planning, Preparedness and Operations
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 in whole or in part. House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

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

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 Recording Studio
House Services
Net Expenses of Equipment
Net Expenses of Telecommunications
Page School
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 Committee on Taxation, which has members from both the House and the Senate

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. 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 Assets, Furnishings and Logistics 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. The change in work in process is due to several projects not placed in service during 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 enters into capital leases for building structures and computer hardware. 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 16)

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 licenses and are 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 financial activity determined on a three-year averaging methodology.

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 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). 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 offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, and Leadership offices is estimated on the financial statements. In 2010, 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 primarily related to Page School Security Deposits, 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. (See Note 15)

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 Page School room and board and 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.

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 3% over FY 2009 is reflected in the FY 2010 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 16)

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. 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, 2010 and 2009 were:

Fund Balance with Treasury	2010	2009
General and Other Funds		
House maintained	$ 180,734,103	$ 158,804,843
Congressional Use of Foreign Currency	38,321,898	33,706,776
Total General and Other Funds	219,056,001	192,511,619
Revolving Funds	20,526,639	20,692,905
Total	**$ 239,582,640**	**$ 213,204,524**

Status of Fund Balance with Treasury as of September 30, 2010 and 2009 were:

Status of Fund Balance with Treasury	2010	2009
Unobligated Balance		
Available	$ 39,575,858	$ 41,529,592
Unavailable	59,012,287	59,473,698
Obligated Balance not yet Disbursed	141,186,698	111,821,812
Other Funds	(192,203)	379,422
Total	**$ 239,582,640**	**$ 213,204,524**

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

Cash and Other Monetary Assets as of September 30, 2010 and 2009 were:

Cash and Other Monetary Assets	2010	2009
Cash on Hand	$ 1,092	$ 1,653
Total	**$ 1,092**	**$ 1,653**

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of September 30, 2010 and 2009 were:

Accounts Receivable, Net	2010	2009
Accounts Receivable, Gross	$ 949,519	$ 1,289,880
Less: Allowance for Doubtful Accounts	(732,613)	(900,306)
Total	**$ 216,906**	**$ 389,574**

NOTE 4 - INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property, Net as of September 30, 2010 and 2009 were:

Inventory and Related Property, Net	2010	2009
Operating Materials and Supplies Held for Use	$ 343,339	$ 427,955
Inventory Purchased for Resale	999,020	940,256
Total	**$ 1,342,359**	**$ 1,368,211**

NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET

General Property and Equipment, Net as of September 30, 2010 and 2009 and the related depreciation and amortization expense were:

2010 Classes of Property and Equipment	Service Life (Years)	Acquisition Value	Accumulated Amortization Depreciation	Net Book Value	Amortization Depreciation Expense
Work in Process	N/A	$ 9,001,668	$ -	$ 9,001,668	$ -
Computer Software in Development	N/A	16,189,010	-	16,189,010	-
Computer Software and Hardware	3	97,909,184	79,851,739	18,057,445	9,456,787
Assets Under Capital Lease	3/10	3,923,168	1,770,501	2,152,667	991,679
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	62,985,272	43,755,240	19,230,032	7,533,635
Motor Vehicles	5	10,666,880	10,368,555	298,325	1,598,560
Furnishings and Other Equipment	10	1,141,104	1,100,855	40,249	11,452
Leasehold Improvements	10	9,085,375	6,731,486	2,353,889	908,538
Total		**$ 211,416,029**	**$ 144,092,744**	**$ 67,323,285**	**$ 20,500,651**

2009 Classes of Property and Equipment	Service Life (Years)	Acquisition Value	Accumulated Amortization Depreciation	Net Book Value	Amortization Depreciation Expense
Work in Process	N/A	$ 11,112,825	$ -	$ 11,112,825	$ -
Computer Software in Development	N/A	13,651,049	-	13,651,049	-
Computer Software and Hardware	3	87,676,143	74,847,751	12,828,392	5,397,421
Assets Under Capital Lease	3/10	5,354,657	889,938	4,464,719	2,260,175
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	54,241,493	38,343,134	15,898,359	5,526,155
Motor Vehicles	5	10,686,103	8,820,869	1,865,234	1,508,871
Furnishings and Other Equipment	10	1,519,035	1,389,234	129,801	18,289
Leasehold Improvements	10	9,085,375	5,822,949	3,262,426	908,538
Total		**$ 193,841,048**	**$ 130,628,243**	**$ 63,212,805**	**$ 15,619,449**

NOTE 6 - STEWARDSHIP PROPERTY AND EQUIPMENT

Physical counts for collection-type heritage assets as of September 30, 2010 and 2009 were:

Heritage Assets	2009	Additions	Withdrawals	2010
Artwork	305	6	-	311
Artifacts	3,124	476	-	3,600
Total	**3,429**	**482**	-	**3,911**

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, 2010 and 2009 were:

Advances and Prepayments	2010	2009
Advances	$ 13,776	$ 18,641
Prepayments	4,011,514	5,435,679
Total	**$ 4,025,290**	**$ 5,454,320**

NOTE 8 - LIABILITIES

Liabilities covered and not covered by budgetary resources as of September 30, 2010 and 2009 were:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2010
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	$ 1,481,153	$ -	$ -	$ -	$ 1,481,153
Advances from Others	1,578,859	-	-	-	1,578,859
Capital Lease Liability	-	-	179,287	549,372	728,659
Other Liabilities					
Accrued Workers' Compensation	-	-	-	2,049,036	2,049,036
Unemployment Compensation	363,853	-	-	-	363,853
Total Other Liabilities	363,853	-	-	2,049,036	2,412,889
Total Intragovernmental Liabilities	3,423,865	-	179,287	2,598,408	6,201,560
Public Liabilities					
Accounts Payable	33,784,385	-	-	-	33,784,385
Actuarial FECA Liability	-	-	-	20,120,574	20,120,574
Accrued Payroll and Benefits	9,042,252	-	-	-	9,042,252
Unfunded Accrued Annual Leave	-	-	-	6,692,287	6,692,287
Capital Lease Liability	-	-	-	1,588,093	1,588,093
Other Liabilities	179,021	-	-	-	179,021
Total Public Liabilities	43,005,658	-	-	28,400,954	71,406,612
Total	**$ 46,429,523**	**$ -**	**$ 179,287**	**$ 30,999,362**	**$ 77,608,172**

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2009
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	$ 1,308,443	$ -	$ -	$ -	$ 1,308,443
Advances from Others	641,483	-	-	-	641,483
Capital Lease Liability	-	-	148,755	728,662	877,417
Other Liabilities					
Accrued Workers' Compensation	-	-	-	2,248,334	2,248,334
Unemployment Compensation	230,661	-	-	-	230,661
Total Other Liabilities	230,661	-	-	2,248,334	2,478,995
Total Intragovernmental Liabilities	2,180,587	-	148,755	2,976,996	5,306,338
Public Liabilities					
Accounts Payable	43,104,203	-	-	-	43,104,203
Actuarial FECA Liability	-	-	-	21,458,664	21,458,664
Accrued Payroll and Benefits	9,170,015	-	-	-	9,170,015
Unfunded Accrued Annual Leave	-	-	-	6,628,475	6,628,475
Capital Lease Liability	2,520,766	-	-	-	2,520,766
Other Liabilities	155,310	-	-	-	155,310
Total Public Liabilities	54,950,294	-	-	28,087,139	83,037,433
Total	**$ 57,130,881**	**$ -**	**$ 148,755**	**$ 31,064,135**	**$ 88,343,771**

NOTE 9 - LEASE COMMITMENTS

Capital Leases

Assets Under Capital Lease as of September 30, 2010 and 2009 were:

Summary of Assets Under Capital Lease	2010	2009
Buildings Structures	$ 1,354,473	$ 1,354,473
Computer Hardware	2,568,695	4,000,184
Accumulated Amortization	(1,770,501)	(889,938)
Total	**$ 2,152,667**	**$ 4,464,719**

Future Capital Lease Payments Due as of September 30, 2010 were:

Year	Building Structures	Hardware	Total
2011	$ 301,428	$ -	$ 301,428
2012	301,428	596,497	897,925
2013	301,428	596,497	897,925
2014	75,156	596,497	671,653
2015	-	-	-
Thereafter	-	-	-
Total Future Capital Lease Payments	979,440	1,789,491	2,768,931
Less: Imputed Interest	(250,781)	(201,398)	(452,179)
Less: Executory Costs	-	-	-
Net Capital Lease Liability	**$ 728,659**	**$ 1,588,093**	**$ 2,316,752**

The House maintains capital leases for building structures and hardware. 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 terms and conditions for the hardware lease indicate the House's agreement to pay for products for the full multi-year lease term with the option to renew for fiscal years beyond the initial fiscal year. 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, 2010 were:

Year	Vehicles	Office Space	Parking	Total
2011	$ 467,787	$ 6,602,185	$ 44,456	$ 7,114,428
2012	107,441	43,282	-	150,723
Total	**$ 575,228**	**$ 6,645,467**	**$ 44,456**	**$ 7,265,151**

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. The House requires that leases entered into by Members for space be no longer than the elected term of the Member. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. Members and Officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination.

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 is not currently involved in any lawsuit where the sacrifice of federal resources is probable and the amount can be reasonably estimated.

NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental Costs and Exchange Revenue as of September 30, 2010 and 2009 are:

Intragovernmental Costs and Exchange Revenue	2010	2009
Legislative Activities		
Intragovernmental Costs	$ 297,466,477	$ 249,792,974
Public Costs	1,402,114,224	1,324,513,444
Total Costs	1,699,580,701	1,574,306,418
Intragovernmental Earned Revenue	(3,957,652)	(3,905,893)
Public Earned Revenue	(7,453,493)	(6,513,361)
Total Earned Revenue	(11,411,145)	(10,419,254)
Net Program Costs	1,688,169,556	1,563,887,164
Revolving Funds		
Intragovernmental Costs	378,589	170,482
Public Costs	2,209,571	3,129,932
Total Costs	2,588,160	3,300,414
Intragovernmental Earned Revenue	(2,300,239)	(2,037,361)
Public Earned Revenue	(1,856,057)	(1,725,005)
Total Earned Revenue	(4,156,296)	(3,762,366)
Net Program Costs	(1,568,136)	(461,952)
Total		
Intragovernmental Costs	297,845,066	249,963,456
Public Costs	1,404,323,795	1,327,643,376
Total Costs	1,702,168,861	1,577,606,832
Intragovernmental Earned Revenue	(6,257,891)	(5,943,254)
Public Earned Revenue	(9,309,550)	(8,238,366)
Total Earned Revenue	(15,567,441)	(14,181,620)
Net Cost of Operations	**$ 1,686,601,420**	**$ 1,563,425,212**

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	**2010**	**2009**
Personnel Compensation	$ 812,722,162	$ 785,018,829
Retirement Plan Contributions	152,317,745	144,764,684
Social Security	55,133,875	52,846,066
Health Insurance	51,707,028	46,594,336
Student Loan/Fitness Center Programs	16,867,989	12,613,054
Unemployment and Workers' Compensation	2,839,906	3,473,080
Transit Benefits	2,764,903	2,406,554
Life Insurance	1,251,004	1,218,081
Death Benefits	1,316,386	1,032,411
Annual Leave	63,814	496,691
Workers' Compensation Actuarial Adjustment	(1,338,090)	(933,772)
Total	**$ 1,095,646,722**	**$ 1,049,530,014**

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 $19 million and $20 million were expended in 2010 and 2009, 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 - 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 and multi-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.

- Total Cumulative Results of Operations:

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

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

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

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2010 and 2009 were:

Appropriations	**2010**	**2009**
2008 (single)	$ 4,930,523	$ -
2007 (single)	-	12,641,660
2006/2007 (multi)	-	382,270
2005/2007 (multi)	-	325,809
Total	**$ 4,930,523**	**$ 13,349,739**

Net Position as of September 30, 2010 and 2009 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Stationery revolving funds are shown in the following table:

Net Position	**2010**		**2009**	
Unexpended Appropriations		$ 179,390,239		$ 155,434,854
Cumulative Results of Operations:				
Cumulative Results of Operations	$ 15,936,431		$ 6,756,768	
Invested Capital	66,369,591		61,182,833	
Future Funding Requirements	(26,812,861)		(28,087,139)	
Total Cumulative Results of Operations		55,493,161		39,852,462
Total Net Position		**$ 234,883,400**		**$ 195,287,316**

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

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

NOTE 16 - 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	**2010**	**2009**
Federal Employee and Veteran's Benefits		
Current Service Cost - Federal Employees Health Benefits	$ 54,471,038	$ 50,740,579
Current Service Cost - Federal Pensions	31,242,088	13,439,610
Current Service Cost - Federal Employees Group Life Insurance	123,037	118,949
Total Federal Employee and Veteran's Benefits	85,836,163	64,299,138
Occupancy Costs	153,514,658	150,616,773
Total	**$ 239,350,821**	**$ 214,915,911**

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 United States Government with actual amounts for the year ended September 30, 2010 has not been published as of the issue date of these financial statements. This document will be available in February 2011.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2009 were:

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government	**Budgetary Resources**	**Net Outlays**
Statement of Budgetary Resources	$ 1,420,662,438	$ 1,362,982,732
Difference	(1,662,438)	1,017,268
Budget of the U.S. Government	**$ 1,419,000,000**	**$ 1,364,000,000**

The House deems the variances between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for budgetary resources and net outlays to be immaterial and/or insignificant. As such, reconciliation of this item is not necessary and therefore not included.

NOTE 19 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders as of September 30, 2010 and 2009 were:

Undelivered Orders at the End of the Period	**2010**	**2009**
Undelivered Orders, Unpaid	$ 97,449,237	$ 58,008,337
Undelivered Orders, Paid	4,043,931	5,454,320
Total	**$ 101,493,168**	**$ 63,462,657**

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

NOTE 20 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 1,525,713,919	$ 1,400,135,747
Less: Spending Authority from Offsetting Collections and Recoveries	(34,072,297)	(35,419,677)
Obligations Net of Offsetting Collections and Recoveries	1,491,641,622	1,364,716,070
Less: Offsetting Receipts	-	-
Net Obligations	1,491,641,622	1,364,716,070
Other Resources		
Donations/Forfeited Property	-	-
Transfers in/out Without Reimbursement	-	-
Imputed Financing from Costs Absorbed by Others	239,350,821	214,915,911
Net Other Resources Used to Finance Activities	239,350,821	214,915,911
Total Resources Used to Finance Activities	1,730,992,443	1,579,631,981
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	40,378,171	8,087,112
Resources that Fund Expenses Recognized in Prior Periods	1,802,616	2,567,117
Budgetary Receipts and Offsetting Collections that do not affect Statement of Net Cost	-	-
Resources that Finance the Acquisition of Assets	24,187,212	29,616,181
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost	420,050	-
Total Resources Used to Finance Items not Part of the Net Cost of Ops	66,788,049	40,270,410
Total Resources Used to Finance the Net Cost of Operations	$ 1,664,204,394	$ 1,539,361,571
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 in Annual Leave Liability	$ 63,812	$ 496,691
(Increase)/Decrease in exchange revenue receivable	172,668	254,374
Other	265,228	1,352,957
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	501,708	2,104,022
Components not Requiring or Generating Resources:		
Depreciation and Amortization	20,500,651	15,619,449
Revaluation of Assets or Liabilities	547,835	1,757,092
Other	846,832	4,583,078
Total Components of Net Cost of Operations not Requiring or Generating Resources	21,895,318	21,959,619
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	22,397,026	24,063,641
Net Cost of Operations	**$ 1,686,601,420**	**$ 1,563,425,212**

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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, 2010:

Heritage Asset Collection	**Description**	**2009**	**Increase**	**Decrease**	**2010**	**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.	305	6	0	311	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	2009	Increase	Decrease	2010	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.	3,124	476	0	3,600	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.

U.S. HOUSE OF REPRESENTATIVES

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