

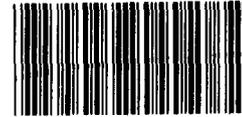
GAO

Report to the Clerk of the House of
Representatives

September 1992

FINANCIAL AUDIT

House Child Care
Center Financial
Statements for the
Years Ending 8-31-91
and 8-31-90



147553



**Comptroller General
of the United States**

B-234458

September 18, 1992

**The Honorable Donald K. Anderson
Clerk of the House of Representatives**

Dear Mr. Anderson:

As required by section 2(d) of H.R. Res. 21, 99th Congress, 1st Sess., (1985), which was subsequently enacted into permanent law, we have audited the accompanying balance sheets of the House of Representatives Child Care Center, Inc. (the Corporation), as of August 31, 1991 and 1990, and the related statements of revenues, expenses, and fund balance and cash flows for the fiscal years then ended. We completed our audit work on February 15, 1992. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements present only the results of financial activity funded from revenues received by the Corporation. Thus, they do not include costs which are paid on behalf of the Corporation from funds appropriated either to the House of Representatives or to the Architect of the Capitol.

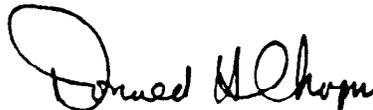
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of August 31, 1991 and 1990, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

Effective October 1, 1991, (see note 9) the Clerk of the House of Representatives assumed responsibility for the operational aspects of the

Center. The Corporation will continue its charitable fund raising in order to provide scholarships to the children attending the Center.

This report includes our report on the internal control structure and compliance with laws and regulations for the fiscal year ended August 31, 1991. It also includes the Corporation's financial statements and accompanying notes for the fiscal years ended August 31, 1991 and 1990.

Sincerely yours,


for
Charles A. Bowsher
Comptroller General
of the United States

Contents

Opinion Letter	1
Report on Internal Control Structure and Compliance With Laws and Regulations	6
Financial Statements	9
Balance Sheets	9
Statements of Revenues, Expenses, and Fund Balance	10
Statements of Cash Flows	11
Notes to Financial Statements	12

Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the House of Representatives Child Care Center, Inc. (the Corporation), for the fiscal years ended August 31, 1991 and 1990, and have issued our opinion thereon. This report pertains only to our consideration of the internal control structure and our review of compliance with laws and regulations for the fiscal year ended August 31, 1991. Our report on internal control structure and compliance with laws and regulations for the fiscal year ended August 31, 1990, is presented in GAO/AFMD-91-59, dated April 26, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of the financial statements of the Corporation for the fiscal year ended August 31, 1991, we considered its internal control structure in order to determine our auditing procedures. Our purpose was to express our opinion on the financial statements and not to provide assurance on the internal control structure.

The Corporation's management was responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the Corporation's significant internal control structure policies and procedures, including those relevant to compliance with laws and regulations, into the following categories:

**Report on Internal Control Structure and
Compliance With Laws and Regulations**

- revenue,
- expenditures, and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, and assessed the associated control risk. We performed limited tests of internal control procedures for all of the categories. In addition, we performed audit tests to substantiate account balances associated with each control category. Such tests can serve to identify weaknesses in the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. During our tests, we did not identify any matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

The management of the Corporation was also responsible for compliance with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the financial statements are free of material misstatement, we selected and tested transactions and records to determine the Corporation's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Corporation's financial statements:

- the House Resolution, as subsequently enacted into permanent law, which established the terms under which the Corporation operated¹ the Center,
- federal, state, and District of Columbia regulations on withholding and payment of income and social security taxes, and
- incorporation laws of the District of Columbia.

¹The Corporation operated under the provisions of H.R. Res. 21, 99th Congress, 1st Sess., (1985). This resolution was enacted into permanent law by Public Law 99-500, sec. 101(j), 100 Stat. 1783-287 (1986) and Public Law 99-591, sec. 101(j), 100 Stat. 3341-287 (1986), as amended by Public Law 100-71, 101 Stat. 425 (1987). The resolution was subsequently amended by Public Law 101-163, sec. 313, 103 Stat. 1065 (1989).

It should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we express no such opinion. Because of the limited purposes for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Corporation has to comply.

The results of our tests for fiscal year 1991 indicate that, with respect to items tested, the Corporation complied in all material respects with those provisions of laws and regulations referred to above. With respect to transactions not tested, nothing came to our attention that caused us to believe that the Corporation had not complied, in all material respects, with those provisions.

Financial Statements

Balance Sheets

	<u>August 31,</u>	
	<u>1991</u>	<u>1990</u>
Assets		
Current Assets		
Cash	\$ 73,228	\$ 78,264
Investment in 6-month Treasury Bills	48,637	52,967
Prepaid insurance expense	8,085	6,927
Accrued interest on investments	<u>595</u>	<u>680</u>
Total current assets	<u>130,545</u>	<u>138,838</u>
Fixed Assets		
Equipment (note 2)	29,599	29,599
Less accumulated depreciation	<u>13,373</u>	<u>8,477</u>
Total fixed assets	<u>16,226</u>	<u>21,122</u>
Total Assets	<u>\$146,771</u>	<u>\$159,960</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 236	\$ 2,969
Deposits held for parents (note 3)	10,500	10,050
Accrued leave (note 3)	3,450	2,683
Payroll held for employees (note 3)	<u>0</u>	<u>5,642</u>
Total liabilities	14,186	21,344
Fund Balance	<u>132,585</u>	<u>138,616</u>
Total Liabilities and Fund Balance	<u>\$146,771</u>	<u>\$159,960</u>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Revenues, Expenses, and Fund Balance

	<u>Fiscal year ended August 31,</u>	
	<u>1991</u>	<u>1990</u>
Revenues		
Operating		
Tuition (note 4)	\$403,585	\$364,728
Application fees	1,625	1,625
Miscellaneous	4,616	1,999
	<u>409,826</u>	<u>368,352</u>
Nonoperating		
Contributions (note 4)	52,765	54,898
Interest (note 5)	8,289	10,371
	<u>61,054</u>	<u>65,269</u>
Total revenues	<u>470,880</u>	<u>433,621</u>
Expenses		
Classroom		
Salaries	376,458	335,291
Employment taxes (note 6)	33,519	25,151
Employee benefits (note 7)	21,311	19,299
Classroom supplies	19,733	24,509
Employee gifts/bonuses	3,877	615
Classroom activities	1,275	795
Staff development	1,273	4,312
Child care equipment--small	0	240
	<u>457,446</u>	<u>410,212</u>
General and administrative		
Insurance	7,097	3,710
Depreciation	4,895	3,987
Fund raising	2,712	4,580
Professional services	1,293	0
Office supplies	697	763
Utilities--telephone	464	393
Printing and advertising	190	476
Banking and investment fees	89	197
Miscellaneous	2,027	1,489
	<u>19,464</u>	<u>15,595</u>
Total expenses	<u>476,910</u>	<u>425,807</u>
Excess (deficiency) of revenues over expenses	(6,030)	7,814
Extraordinary gain from deletion of debt payment requirement (note 8)	0	100,000
Fund balance, beginning of year	<u>138,615</u>	<u>30,801</u>
Fund Balance, End of Year	<u>\$132,585</u>	<u>\$138,615</u>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

	<u>Fiscal year ended August 31,</u>	
	<u>1991</u>	<u>1990</u>
Cash Flows From Operating Activities		
Cash received from child care	\$403,585	\$367,008
Contributions received	52,765	54,898
Interest received	8,374	10,471
Miscellaneous cash received	6,691	1,344
Cash paid to suppliers and employees	(425,951)	(371,394)
Other operating cash payments	<u>(54,830)</u>	<u>(44,450)</u>
Net cash provided (used) by operating activities	<u>(9,366)</u>	<u>17,877</u>
Cash Flows From Investing Activities		
Payments made to acquire Treasury Bills	(102,061)	(105,840)
Return of investment in Treasury Bills	106,391	105,696
Cash paid to purchase equipment	<u>0</u>	<u>(2,896)</u>
Net cash provided (used) by investing activities	<u>4,330</u>	<u>(3,040)</u>
Net Increase (Decrease) in Cash	(5,036)	14,837
Cash at beginning of year	<u>78,264</u>	<u>63,427</u>
Cash at End of Year	<u>\$ 73,228</u>	<u>\$ 78,264</u>
Reconciliations of Excess (Deficiency of) Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities		
Excess (deficiency of) revenues over expenses	\$ <u>(6,030)</u>	\$ <u>7,814</u>
Adjustments to reconcile excess (deficiency of) revenues over expenses to net cash provided (used) by operating activities		
Depreciation	4,895	3,987
Decrease (increase) in assets		
Prepaid insurance expense	(1,158)	(2,737)
Accrued interest on investments	85	100
Increase (decrease) in liabilities		
Accounts payable--vendors	(2,733)	2,881
Payroll taxes payable	0	(423)
Payroll held for employees	(5,642)	2,372
Accrued leave	767	2,683
Deposits held for parents	450	<u>1,200</u>
Total adjustments	<u>(3,336)</u>	<u>10,063</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,366)</u>	<u>\$ 17,877</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Significant Accounting Policies

Organization

The House of Representatives Child Care Center, Inc., (the Corporation) is an independent, nonprofit, nongovernmental corporation, incorporated under the laws of the District of Columbia for the sole purpose of providing child care. It is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The Corporation began operations on September 1, 1987. The Corporation was authorized to operate the Center by House House Resolution 21, December 11, 1985.

The Corporation provided preschool child care for children of Members, officers, employees, and support personnel of the House of Representatives. If space was available after admission of these children, the Corporation was authorized to provide care for children of Senators, officers, and employees of the Senate, and employees of legislative branch agencies.

Basis of Accounting

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

Contributions and Donations

The Corporation solicited and received contributions from corporations, individuals, and the United Way. Contributions received included cash and goods and services. Donated goods were recorded at fair market value; however, no value was assigned to donated services.

Costs Paid From Appropriated Funds

The financial statements do not include costs for facilities, improvements, utilities (except telephone), office furniture and equipment, repairs and maintenance, and other services that cannot be readily determined. These costs were paid for the Corporation from appropriated funds available to the House of Representatives or the Architect of the Capitol.

Administration and Fund Raising Expenses

Administration and fund raising expenses were about 4 percent of total revenues and included those expenses so identified in the Statements of Revenues, Expenses, and Fund Balance. The salaries of the Center Director and Administrative Assistant are included in classroom expenses rather than administrative expenses because these

individuals are directly involved in the daily operation of the Center. Additional administration and fund raising services were performed by officers, directors, parents, and others at no expense to the Corporation.

Depreciation Policy

Donated and purchased equipment is depreciated over a 5-year or 10-year period using the straight-line method.

2. Equipment

The Corporation has purchased or received by donation the equipment listed in table 1.

Table 1: Schedule of Purchased and Donated Equipment

	<u>Cost or fair market value</u>	<u>Accumulated depreciation</u>	<u>Net value</u>
Purchased equipment	\$12,579	\$ 7,184	\$ 5,395
Donated equipment	<u>17,020</u>	<u>6,189</u>	<u>10,831</u>
Total	<u>\$29,599</u>	<u>\$13,373</u>	<u>\$16,226</u>

3. Outstanding Current Liabilities

The Corporation held \$10,500 and \$10,050 as of August 31, 1991 and 1990, respectively, in refundable deposits from children's parents. The deposits are used to offset any unpaid charges when a parent withdraws a child from the Center's program. The deposits are refundable if timely notice of withdrawal is given.

Prior to fiscal year 1991, the Corporation's policy was to hold an employee's first week of pay until employment ended and any outstanding obligations owed to the Corporation were paid. During fiscal year 1991, the Corporation reversed this policy and remitted first week's pay to its employees.

Full-time Corporation employees were entitled to accrued vacation and personal leave benefits. The liability for such benefits as of August 31, 1991, and 1990, was \$3,450 and \$2,683, respectively.

4. Scholarships

The Corporation's policy was to provide child care services to qualified parents at all income levels. Tuition assistance scholarships were awarded to accomplish this objective. The Corporation provided \$38,363 and \$35,901 in tuition assistance during fiscal years 1991 and 1990, respectively. Tuition revenue shown on the Statements of Revenues, Expenses, and Fund Balance does not include funds used for tuition assistance which were a part of the \$52,765 and \$54,898 in contributions the Corporation received during fiscal years 1991 and 1990, respectively.

5. Interest

The Corporation's assets include credit union accounts which earn interest on a monthly basis and 6-month Treasury Bill holdings which were purchased at a discount and mature at face value. The Corporation earned interest of \$4,551 and \$5,973 from its credit union accounts and \$3,738 and \$4,398 from its Treasury Bill-related holdings in 1991 and 1990, respectively.

6. Employment Taxes

Employment taxes include amounts reimbursed to the District of Columbia for unemployment benefits paid to former employees. The Corporation was generally not required to pay unemployment taxes; however, if an employee claimed unemployment compensation based on a period of time worked with the Corporation, the Corporation was required to repay the unemployment benefits to the District on behalf of the employee. For fiscal year 1991 only, the total amount reimbursed on behalf of former employees was \$4,184.

7. Employee Benefits

All Corporation employees were covered by the Social Security Act. In addition, the Corporation allowed employees to select the types of benefits to which they wished to have the Corporation contribute (up to a maximum of \$85 per month) on their behalf. These benefits included contributions to health insurance coverage, tuition payments, or deposits into individual retirement accounts. The Corporation has no future benefits liability for individuals who ceased to be employed by the Corporation.

8. Loan Payable

The Corporation was paid \$100,000 from the Contingent Fund of the House in January 1987, for equipment and other expenses of starting the Center under authority of section 4(a) of H.R. Res. 21, 99th Congress, 1st Sess., (1985), as subsequently enacted into law. Section 4(a) also required the Corporation to repay the \$100,000 in equal annual installments beginning 3 years after the Corporation began operations. The \$100,000 was a liability of the Corporation until Public Law 101-163, section 313(b), 103 Stat. 1065 (1989) amended section 4(a) to repeal the requirement that it be repaid.

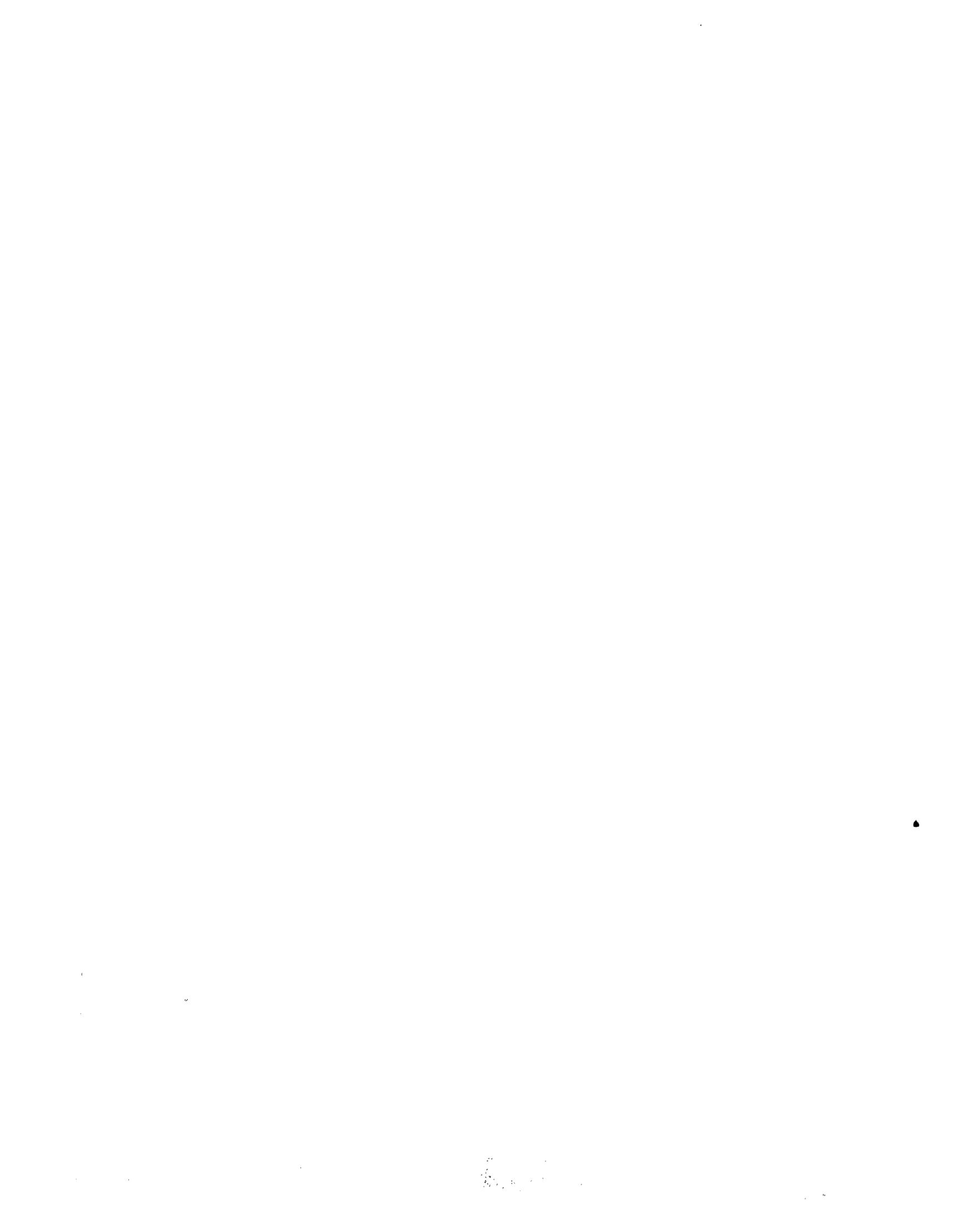
9. Subsequent Event

Pursuant to Public Law 102-90, the Clerk of the House of Representatives assumed responsibility for operating the Center on October 1, 1991. As a result, all operating assets and materials of the Center were transferred from the Corporation to the Clerk of the House. In addition, all of the Corporation's staff were made employees of the House of Representatives and became eligible for group health and life insurance coverage and are covered by the Federal Employees Retirement System.

Furthermore, under Public Law 102-90, the Corporation is no longer responsible for the day-to-day operation of the Center. Its sole purpose will be to raise charitable funds, as a private, nonprofit entity, to provide tuition scholarships to children at the Center. (See note 4.)

10. Contingent Liability

The House of Representatives Child Care Center, Inc. has been named in a lawsuit by a former employee. In the opinion of management, it is reasonably possible that the Corporation could become liable for damages associated with this claim; however, the amount of liability is not determinable.



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