United States General Accounting Office

GAO

Report to the Clerk of the House of Representatives

April 1991

FINANCIAL AUDIT

House Child Care Center Financial Statements for the Years Ending 8-31-90 and 8-31-89

143874

GAO

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

Comptroller General
of the United States

B-234458

April 26, 1991

The Honorable Donnald 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., as of August 31, 1990 and 1989, and the related statements of revenue, expenses, and fund balance and cash flows for the fiscal years then ended. We completed our audit work on November 16, 1990. These financial statements are the responsibility of the Center'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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of August 31, 1990 and 1989, and the results of its operations and cash flows for the fiscal years ended August 31, 1990 and 1989, in conformity with generally accepted accounting principles.

Contents

Our report on the internal control structure and compliance with laws and regulations for the fiscal year ended August 31, 1990, together with the Center's financial statements and accompanying notes for the fiscal years ended August 31, 1990 and 1989, is included in this report.

Sincerely yours,

Donald H Chapin for

Charles A. Bowsher
Comptroller General
of the United States

- revenue,
- expenditures, and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of the 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 reportable 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, however, 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 Center is also responsible for compliance with laws and regulations applicable to the Center. 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 Center's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Center's financial statements. However, it should be noted that our objective was not to provide an opinion on the overall compliance with such provisions.

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., for the fiscal years ended August 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our consideration of the Center's internal control structure and our review of compliance with laws and regulations for the fiscal year ended August 31, 1990. Our report on internal accounting controls and compliance with laws and regulations for the fiscal year ended August 31, 1989, is presented in GAO/AFMD-90-65, dated April 23, 1990.

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 Center for the fiscal year ended August 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurances about the adequacy of the internal control structure.

The Center's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required 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 the 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 Center's significant internal control structure policies and procedures into the following categories:

Balance Sheets

	August 31,	
	1990	1989
Assets		
Current Assets		
Cash	$78,264	$63,427
Investment in marketable securities—at lower of cost or market value	52,967	52,823
Prepaid insurance expense	6,927	4,190
Accrued interest on investments	680	780
Total current assets	**138,838**	**121,220**
Fixed Assets		
Equipment (note 2)	29,599	27,109
Less accumulated depreciation	8,477	4,896
Total fixed assets	**21,122**	**22,213**
Total Assets	**$159,960**	**$143,433**
Liabilities and Fund Balance		
Current Liabilities		
Accounts payable	$2,969	$89
Payroll taxes payable	0	423
Deposits held for parents (note 3)	10,050	8,850
Payroll held for employees (note 3)	5,642	3,270
Employee benefits payable (note 3)	2,683	0
Total current liabilities	**21,344**	**12,632**
Long-Term Liabilities		
Loan payable (note 4)	0	100,000
Total long-term liabilities	**0**	**100,000**
Total liabilities	**21,344**	**112,632**
Fund Balance	138,616	30,801
Total Liabilities and Fund Balance	**$159,960**	**$143,433**

The accompanying notes are an integral part of these statements.

We tested for compliance with

- the House Resolution, as subsequently enacted into permanent law, which established the terms under which the Center operated,[1] and
- federal regulations on the withholding and payment of income and social security taxes.

Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Center has to comply.

The results of our tests for fiscal year 1990 indicate that with respect to the items tested, the Center complied in all material respects with those provisions of laws and regulations that could have a material effect on the financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that the Center had not complied, in all material respects, with those provisions. However, based on our tests, we did identify one nonmaterial compliance issue that we believe merits attention.

Monthly Reports Not Submitted

Section 2 (d) of H.R. Res. 21, 99th Congress, 1st Sess., (1985), as enacted into law, requires the Center to submit comprehensive monthly reports of its operations and financial transactions to the House of Representatives. The reports are a condition of the Center's continuing use of space, which is provided for without charge, in a House office building.

During 1990, the corporation did not submit the required monthly reports. The Center's director advised us that the requirement to submit these reports had been unintentionally overlooked. In January 1991, the Center's Board of Directors began submitting minutes from its monthly meetings to fulfill the reporting requirement.

[1]The Center 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).

Statements of Revenue, Expenses, and Fund Balance

	Fiscal year ended August 31, 1990	1989
Excess of revenue over expenses	7,814	3,408
Extraordinary gain from deletion of debt payment requirement (note 4)	100,000	0
Fund balance, beginning of year	30,801	27,393
Fund Balance, End of Year	**$138,615**	**$30,801**

The accompanying notes are an integral part of these statements.

Statements of Revenue, Expenses, and Fund Balance

	Fiscal year ended August 31, 1990	1989
Revenue		
Operating		
Tuition (note 5)	$364,728	$313,919
Application fees	1,625	1,950
Miscellaneous	1,999	3,776
	368,352	319,645
Nonoperating		
Donations (note 5)	54,898	17,795
Interest (note 6)	10,371	9,001
	65,269	26,796
Total Revenue	**433,621**	**346,441**
Expenses		
Classroom		
Child care equipment - small	240	3,993
Classroom activities	795	840
Classroom supplies	24,509	17,329
Employee benefits (note 7)	19,299	10,180
Employee gifts/bonuses	615	0
Employment taxes	25,151	20,580
Salaries	335,291	274,483
Staff development	4,312	2,609
	410,212	330,014
General and administrative		
Banking and investment fees	197	45
Depreciation	3,987	1,901
Fund raising	4,580	0
Insurance	3,710	6,400
Office supplies	763	861
Printing and advertising	476	860
Utilities - telephone	393	362
Miscellaneous	1,489	2,590
	15,595	13,019
Total Expenses	**425,807**	**343,033**

(continued)

Notes to Financial Statements

Note 1. Significant Accounting Policies

Organization

The House of Representatives Child Care Center, Inc., 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 income tax under section 501(c)(3) of the Internal Revenue Code. The Center began operations on September 1, 1987.

The Center provides preschool child care for children of Members, officers, employees, and support personnel of the House of Representatives. If space is available, the Center can also provide care for children of Senators, officers and employees of the Senate, and employees of legislative branch agencies.

Contributions and Donations

The Center solicits and receives donations from corporations, individuals, and the United Way. Donations received are in the form of cash or goods and services. Donated goods are recorded at fair market value, but no value is assigned to the 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 are paid for the Center from appropriated funds available to Members of the House of Representatives or the Office of the Architect of the Capitol.

Administration and Fund Raising Expenses

Administration and fund raising expenses are about 4 percent of total revenue and include those expenses identified in the Statements of Revenue, 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 operation of the Center on a daily basis. Additional administration and fund raising services are performed by officers, directors, parents, and others at no expense to the Center.

Depreciation Policy

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

Note 2. Equipment

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

Statements of Cash Flows

	Fiscal year ended August 31,	
	1990	**1989**
Cash Flows From Operating Activities		
Cash received from child care	$367,008	$314,383
Contributions received	54,898	17,795
Interest received	10,471	8,221
Miscellaneous cash received	1,344	3,776
Cash paid to suppliers and employees	(371,394)	(307,901)
Other operating cash payments	(44,450)	(30,760)
Net cash provided by operating activities	17,877	5,514
Cash Flows From Investing Activities		
Payments made to acquire Treasury Bills	(105,840)	(52,823)
Return of investment in Treasury Bills	105,696	0
Cash paid to purchase equipment	(2,896)	(627)
Net cash provided by investing activities	(3,040)	(53,450)
Cash Flows From Financing Activities		
Net cash provided by financing activities	0	0
Net Increase (Decrease) in Cash	14,837	(47,936)
Cash at beginning of year	63,427	111,363
Cash at End of Year	**$78,264**	**$63,427**
Reconciliations of Excess Revenue Over Expenses to Net Cash Provided by Operating Activities		
Excess of revenue over expenses	$7,814	$3,408
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities		
Depreciation	3,987	1,901
Decrease (increase) in assets		
Prepaid insurance expense	(2,737)	2,211
Accrued interest on investments	100	(780)
Increase (decrease) in liabilities		
Accounts payable - vendors	2,881	(86)
Payroll taxes payable	(423)	(1,169)
Payroll held for employees	2,372	(135)
Deposits held for parents	1,200	1,650
Employee benefits payable	2,683	0
Deferred revenue	0	(1,486)
Total adjustments	**10,063**	**2,106**
Net Cash Provided by Operating Activities	**$17,877**	**$5,514**

The accompanying notes are an integral part of these statements.

Note 6. Interest

The Center's assets include credit union accounts, which earn interest on a monthly basis, and 6-month Treasury bill holdings, which earn interest upon maturity. The Center earned $5,973 in interest from the credit union accounts, and $4,398 from Treasury bill holdings in fiscal year 1990.

Note 7. Employee Benefits

All Center employees are covered by the Social Security Act. In addition, the Center allows employees to select the types of benefits to which they wish to have the Center contribute on their behalf. These benefits include contributions to health insurance coverage, tuition payments, or deposits into individual retirement accounts. The Center has no future benefits liability after an individual is no longer employed by the Center.

Table 1: Schedule of Purchased and Donated Equipment

	Cost or fair market value	Accumulated depreciation	Net value
Purchased equipment	$12,579	$4,224	$8,355
Donated equipment	17,020	4,253	12,767
Total	**$29,599**	**$8,477**	**$21,122**

Note 3. Outstanding Current Liabilities

The Center is holding $10,050 in refundable deposits from children's parents. The deposits are used to offset any fees that are outstanding when a child is withdrawn from the Center's program. The deposits are refundable if timely notice of withdrawal is given.

The Center is also holding $5,642 from employees' first week's pay, which is due to them upon termination of employment and repayment of any outstanding obligations owed the Center.

In addition, full-time Center employees are entitled to accrued vacation and personal leave benefits. The liability for such benefits as of August 31, 1990, was $2,683.

Note 4. 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 Center began operations. The $100,000 was a Center liability until Public Law 101-163, section 313(b), 103 Stat. 1065 (1989) amended section 4(a) to repeal the requirement that it be repaid.

Note 5. Scholarships

The Center's policy is to provide child care services to qualified parents at all income levels. Tuition assistance scholarships are awarded to accomplish this objective. The Center provided $35,901 in tuition assistance during fiscal year 1990. Tuition revenue shown on the Statements of Revenue, Expenses, and Fund Balance does not include funds used for tuition assistance which are a part of the $54,898 in donations the Center received during fiscal year 1990.

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